1999 Annual Report



# Kingsway Financial Services Inc.

The Kingsway Difference

*Kingsway Financial Services Inc. Head Office, Mississauga, Canada*

## Corporate Profile

Kingsway Financial Services Inc. is one of the fastest growing property and casualty insurance companies in North America with a proven track record of profitability. The Company is focused on building operating excellence through nine wholly owned subsidiaries:

- Kingsway General Insurance Company
- York Fire and Casualty Insurance Company
- Jevco Insurance Company
- Universal Casualty Company
- Southern United Fire Insurance Company
- American Service Insurance Company, Inc.
- Walshire Assurance Company
- Hamilton Investments, Inc.
- Avalon Risk Management, Inc.

Kingsway's primary business is the insuring of automobile risks for drivers who do not meet the criteria for coverage by standard automobile insurers. The Company also operates in standard automobile, commercial automobile, property, motorcycle and other specialty markets, where limited competition and an emphasis on underwriting profit provide the opportunity for above-average returns. Headquartered in Mississauga, Ontario, Kingsway employs approximately 1,000 people in Canada and the United States.

Kingsway Financial Services Inc.'s shares are listed on the Toronto Stock Exchange, under the trading symbol "KFS".

### Contents



Note: all amounts in Canadian dollars unless otherwise stated

# The Kingsway Difference is Growth & Profitability

## Growth

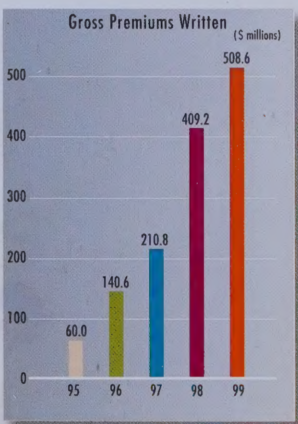
- Focus on high growth niche insurance markets
- Acquisitions in North American market
- Internal growth

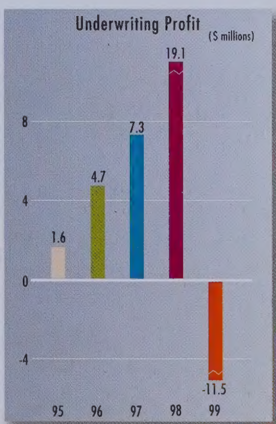
## Profitability

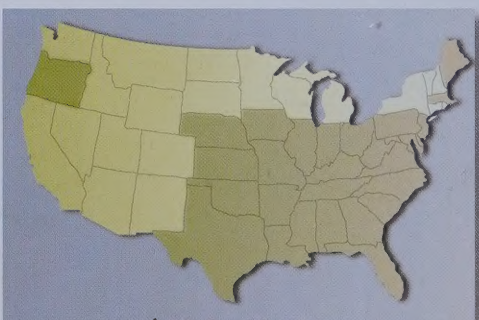
- Focus on underwriting profit
- Disciplined pricing
- Stringent claims and expense controls
- Steady investment returns
- Diversified by product and market
- Deep understanding of niche markets

# Operating Highlights

- Gross premiums written increased by 24%
- Net premiums earned increased by 42%
- Significantly higher retention rate - retained 92% of premiums written
- Geographic expansion in U.S. - Kingsway Group now operates in 28 states
- Kingsway and its Canadian group members rated "A" Excellent by A.M. Best in recognition of financial stability and strength
- Completed acquisition of Hamilton Investments, Inc.
- Acquired 25% interest in managing general agent USA Insurance Group
- Appointed Conning Asset Management as investment manager for Kingsway America and its subsidiaries
- Successfully launched motorcycle product in three states



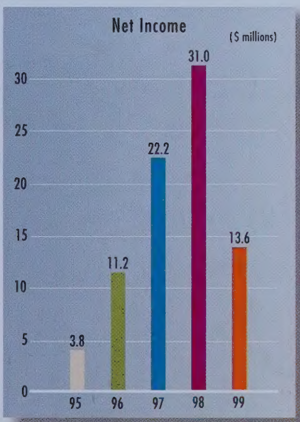



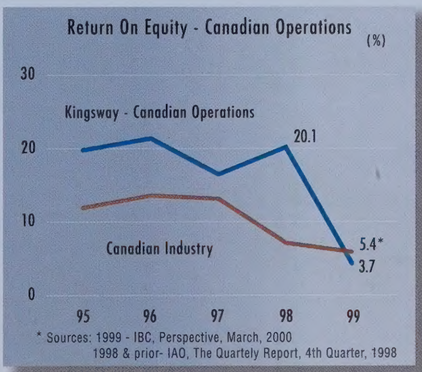


After its recent U.S. acquisitions, Kingsway now writes in 28 states.

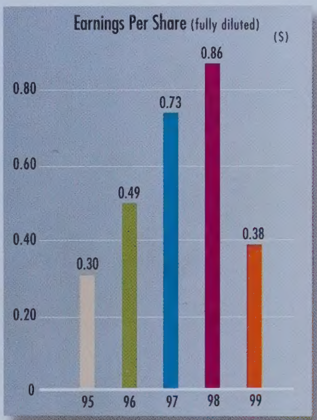
# Financial Highlights

| ($ in thousands, except per share amounts) | Years ended December 31 1999 | 1998 |
|---|---|---|
| Gross Premiums Written | $ 508,595 | $ 409,200 |
| Net Premiums Earned | 445,557 | 314,651 |
| Net Income Before Goodwill | 18,629 | 33,767 |
| Net Income | 13,598 | 31,011 |
| Earnings Per Share Before Goodwill | | |
| Basic & Fully Diluted | $ 0.52 | $ 0.93 |
| Earnings Per Share | | |
| Basic & Fully Diluted | $ 0.38 | $ 0.86 |
| Book Value Per Share | $ 7.12 | $ 6.96 |
| Return on Equity - Consolidated | 5.5% | 13.4% |
| Canadian Operations | 3.7% | 20.1% |
| Industry - Canada† | 5.4% | 7.1% |
| U.S. Operations | 8.1% | 9.4% |
| Industry - U.S.†† | 7.0% | 9.4% |
| Combined Ratio - Consolidated | 102.6% | 93.9% |
| Canadian Operations | 104.8% | 92.0% |
| Industry - Canada† | 106.8% | 107.6% |
| U.S. Operations | 100.6% | 97.0% |
| Industry - U.S.†† | 107.5% | 105.0% |
| Total Assets | $ 1,071,710 | $ 1,012,776 |
| Underwriting Profit (Loss) | $ (11,458) | $ 19,075 |
| Shares Outstanding (as at year end) | 34,010,068 | 35,903,872 * |

† Sources: 1999 - IBC, *Perspective*, March 2000; 1998 - IAO, The Quarterly Report, 4th Quarter, 1998
†† Source: 1999 & 1998 estimate. A.M.Best *Review Preview*, January 2000
* Per share amounts are after giving effect to the two for one subdivision of shares on May 8, 1998



# Strategy and Objectives

## Operating Strategy

Kingsway's significant growth since going public in December 1995 is a direct result of a disciplined operating strategy. This strategy incorporates the following principles:

- Focus on good risks within specialty, niche insurance markets, where limited competition allows for a good spread of risk and above-average returns.
- Emphasis on positive underwriting margins, conservative investment policies and low combined expense ratios to achieve higher quality earnings.
- Refusal to sacrifice underwriting profitability to increase volumes.
- Ability to terminate unprofitable product lines quickly.
- Selectively pursue acquisitions in attractive markets that enhance shareholder value.

## Objectives and Accomplishments

At Kingsway we believe in setting objectives that are ambitious yet realistic. These objectives will constantly evolve as we view the execution of our strategies and respond to opportunities in the marketplace. Our commitment is to achieve these objectives over a rolling five-year period.

We have identified the following three key objectives:

Achieve an after-tax return of greater than 15% on our shareholders' equity

- Kingsway's return on equity for 1999 was 5.5%, and it has averaged 15.3% over the past five years and 20.7% over the past ten years.

Produce a five-year average combined ratio of 96% or less, with no year higher than 98%

- Kingsway's combined ratio for 1999 was 102.6%, and it has averaged 96.9% for the last five years. Excluding the effect of unusual losses in the fourth quarter, the combined ratio for 1999 was approximately 98.5%.

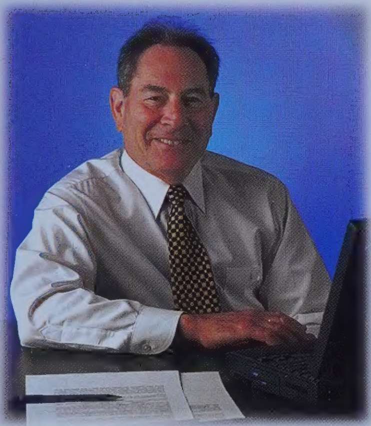
Increase net premiums by, on average, at least 15% annually

- In 1999, Kingsway's net premiums earned grew by 42%, and over the past five years it has grown by a compounded annual growth rate of 79%.

We are convinced that the best way to maximize shareholder value is to consistently achieve or outperform our stated objectives.

## Message to Shareholders

Fiscal 1999 was one of continuing progress as we expanded and strengthened our operations, increased gross and net premium revenue to record levels, and achieved a profit at a time when many in our industry operated at a loss. Nevertheless, it was a disappointing year as we recorded an underwriting loss for the first time in 10 years. We have taken decisive actions to return to our previous level of profitability and remain confident that our specialty insurance niche markets offer excellent long-term growth potential and that our disciplined approach to underwriting will enable us to continue to build shareholder value.



*William G. Star*
*President and C.E.O.*

Our core non-standard auto business continued to outperform the industry and achieved an underwriting profit in fiscal 1999. Additional provisions for unpaid claims taken in the fourth quarter, related to a specialty lease program which we are discontinuing, resulted in an overall underwriting loss. We also made provisions for unpaid claims in the final quarter against unusually high claims activity in the motorcycle business because of an extended riding season, and higher claims related to several large fires. I would like to point out that even with the underwriting loss, our combined ratio of 102.6% is better than the majority of insurance companies, and we plan to return to our more normal 94% to 96% range in fiscal 2000.

We maintained our pricing discipline throughout our operations, which at times temporarily reduces our growth rate and increases our expense ratio as some industry players cut prices to win business. As these companies suffer the consequences of aggressive pricing, causing them to withdraw from markets or raise their rates, we are seeing a return to realistic prices in Canada and the U.S. We are pleased to report that we were rewarded for executing this strategy in Canada in the latter half of 1999, when non-standard automobile premiums in Canada increased by 40%. This pricing cycle should contribute to improved performance in fiscal 2000.

### *Review of Operations*

Following three years of rapid growth, driven largely by acquisitions in the U.S., in 1999 we focused more on consolidating our operations, building strength and benefiting from the economies of scale and synergies of our expanded operations. For example, we introduced improved operating systems to provide an infrastructure for the companies to compare their financial measures with industry standards and to expand their business. We also worked with the new subsidiaries to create uniform standards governing financial reporting, budgeting, goal-setting and strategic planning.

# Message to Shareholders

Additionally, in the United States we introduced motorcycle insurance in three states. We also centralized our technology capabilities to develop a web-based policy application and processing system which we are beta testing at Hamilton and plan to introduce into other subsidiaries to support our agency network.

We did make two investments in Florida this past year. We completed the purchase of the Hamilton Group in January 1999 and, later in the year, we acquired a 25% interest in USA Insurance, a managing general agent for the trucking business. Since we underwrite long-haul trucking business in both Canada and the U.S., this relationship should prove valuable for the ongoing development of this niche market.

In Canada we experienced a 12% increase in premium volume. As a result of the withdrawal of our major competitor mid-year, the business volume of non-standard automobile increased significantly after being much lower in the first half of the year. This increase in business will benefit our results in fiscal 2000, as a significant portion of the premiums written in 1999 had not yet been earned by year end. We did not have to reduce rates to get this business back. We held the line, as has been our practice, and made it clear to our agents and brokers that we would not cut prices to obtain volume. This discipline has paid off very well in the past and will continue to do so in the future.

## *Outlook*

Fiscal 2000 will provide Kingsway with the opportunity for significant growth in the non-standard automobile area, as rates have stabilized in many of our major markets. The same competitor that withdrew from Canada is now increasing its rates substantially in the U.S., which will allow companies like Southern United and Hamilton, which have held the line on pricing, to regain market share and reduce their expense ratios.

We are still the leading provider of motorcycle business in Canada and expect to become a major player in the U.S. during the next few years. We have started to market our motorcycle product in Illinois, Alabama and Florida and by the end of fiscal 2000 we will be in at least 10 states.

Though non-standard auto and motorcycle insurance continue to be our largest market segments, we believe it is important to continue developing other specialty products since diversification is crucial in times of severe competition. Two niche markets that we are expanding are long-haul trucking and surety insurance. There is every indication that rates will increase substantially in the year 2000 for long-haul trucking and move upward to the point where this can be a very profitable line. We also see the opportunity to expand our surety products in both Canada and the United States. Our surety business has been very profitable, generally producing a very attractive loss ratio.

## Message to Shareholders

In fiscal 2000 we plan to use our 40 U.S. licences to broaden the geographic coverage of the Kingsway Group. We also intend to licence Lincoln General in all remaining states so the company can write non-standard auto policies and expand the motorcycle business.

We continue to look at acquiring strong agency operations, which will give us control of the business at source. Rather than acquiring additional insurance underwriters, this is a lower-cost method of acquiring business and provides greater stability for the Company.

Our strong cash flow and the five-year term loan we arranged in early 1999 will fund these growth plans. At this stage, we are on track to produce a strong profit for fiscal 2000. We will work toward a combined ratio of 95% or less in order to produce a return on equity of at least 15% for our shareholders.

### *Acknowledgements*

The Kingsway Group has grown substantially and now employs approximately 1,000 people throughout the United States and Canada. With an operation of this size, it is increasingly important to rely upon each employee and local management to concentrate on quality control. We feel we have excellent teams throughout our companies and it is this team spirit that will keep Kingsway strong in the future. I wish to thank each and every employee, the management of our various companies and our dedicated directors for their assistance during this past year.

We have also strengthened our Board of Directors. During 1999, David Atkins joined our board. David is a Chartered Accountant and holds a law degree and was a senior insurance partner in a major accounting firm. This year, Michael Walsh also joined our board. Michael has spent many years in the Canadian securities industry. I welcome both David and Michael to the board and am sure the Company will benefit from their experience and knowledge.

Early this year, Howard Laxton decided to retire from the board. Howard has contributed significantly to the Company during his tenure. Howard was one of the original investors and a member of the Board when I formed the Company in 1986. On behalf of the Board, I would like to thank him for all of his efforts, which have been tremendous and played a significant part in the growth of the Company.

William G. Star
Chairman, President & Chief Executive Officer
February 24, 2000

## Canadian Operations

Kingsway's Canadian operations managed to increase overall business by 12% during 1999 despite intensive price-cutting by competitors. Kingsway's performance outpaced the industry's premium growth of 0.7% in Canada in 1999. Given the improved business environment, the outlook for 2000 is for greater growth. During the last half of 1999,

*Bill Star* *Shaun Jackson* *Jim Thorndycraft* *Steve Smith* *Rick Davis*

competitors who have engaged in aggressive pricing for the past few years withdrew or raised prices to overcome losses. We expect this positive trend to gain strength in 2000. We have continued to maintain pricing discipline, and expect to increase premiums during the year as other insurers raise their rates or tighten their underwriting standards.

*Ralph Golberg* *Don Hyslop* *Eileen Lascelles* *Tom Walton* *Jacques Muir* *Mariette Caron*

# Canadian Operations

## KINGSWAY GENERAL INSURANCE COMPANY

Kingsway General Insurance Company wrote $160 million of gross premiums in 1999, a 13% increase compared with $141 million in 1998. Kingsway experienced considerable competition in Alberta during the first half of 1999, when a major competitor entered the Alberta market with rates that were approximately 30% lower than Kingsway's. As our practice is to hold the line on rates when we consider the rates of competitors to be inadequate, our business volume was substantially reduced in Alberta for the first half of the year. This same insurer competed in the Ontario market, but did not reduce rates to the same extent. By June, the competitor decided to withdraw from Canada and, as a result, Kingsway's premiums in both Ontario and Alberta increased by 40% during the second half of the year. The majority of premiums on this new business will be earned during 2000. The loss ratio on non-standard automobile has continued to be very favourable and we can expect to earn a substantial profit from this class of business during the current year.

While Kingsway is known generally as a writer of non-standard automobile business, it has been successful in recent years in increasing business in a number of specialty classes, most of which have been quite profitable. These include motorcycle, taxis, long-haul trucking, warranty and a variety of property and liability classes. However, one specialty class, residual value insurance which Kingsway has underwritten since 1997, proved to be an exception and experienced an unusual number of claims in the fourth quarter of 1999. We took the conservative approach of providing for the initial policy term to the maximum possible loss, increasing unpaid claims by $13 million in the fourth quarter to avoid having this business affect the earnings of Kingsway in 2000. We have carefully reviewed this class of business and discontinued it. We will continue to pursue specialty classes that can contribute to the diversification, growth and profit of the company and will take what steps are necessary to minimize risk.

# Canadian Operations

## YORK FIRE & CASUALTY INSURANCE COMPANY

York Fire & Casualty grew premiums by 23% in 1999, writing $43 million of premiums compared with $35 million in 1998. This increase was attributable to a number of new brokers being appointed by the company and an incentive program being offered to new and existing brokers.

York's performance in 1999 was affected by a substantial number of claims in the Niagara Falls area due to an unusual hailstorm in 1998. Many of the claims were not reported until 1999, when people had the opportunity to examine damage caused by this hailstorm. In addition, York experienced several large house fires in the last quarter of the year and as a result, the combined ratio for York was 105% in 1999 compared to 92% in 1998. We are satisfied that these unusual situations were isolated and will not affect the profit of York in the current year. We are confident that York will continue to grow and return to profitability during the current year, as competition is lessening in the standard lines of automobile and property insurance in which it specializes.

## JEVCO INSURANCE COMPANY

Jevco is continuing to grow in a number of specialty sectors in addition to its primary business of motorcycle insurance. Jevco is still the largest writer of motorcycle insurance in Canada and, combined with Kingsway, provides insurance for approximately 40% of the insured motorcycles in Canada. The majority of business written by Jevco is in Quebec, but it has expanded its products to eastern Canada as well as increasing business substantially in the Alberta market.

In 1999, Jevco had $31 million in gross premiums written, compared with $33 million in 1998. The motorcycle season was unusually long in 1999 due to very favourable weather conditions in the fourth quarter. Jevco also experienced large fire and liability losses in 1999. As a result, the combined ratio for Jevco increased to 102% in 1999 from 91% in 1998. We are satisfied this was an unusual situation and that the underwriting profitability of Jevco will resume in 2000.

As rates strengthen, with its approximately 3,000 brokers across Canada, Jevco is well positioned to continue to grow in its core markets.

## U.S. Operations

Growth at Kingsway's U.S. subsidiaries was limited by severe competitio in 1999. Underpricing by competitors had a significant impact on premiu volumes in Florida and other southern states, affecting in particular Southern United and Hamilton. The overall premiums written for the U.S. operations amounted to $274.3 million in 1999, compared with $200.3 million in 1998.

In 1999 Kingsway focused on integrating the companies acquired in 1998. We worked with the new subsidiaries to create uniform standards governing financia reporting, budgeting, goal-setting and strategic planning. We also developed internal systems to provide an infrastructure for the companies to compare their financial measures with industry standards and to expand their business.

*Jim Zuhlke   John Proctor   Marshall Romanz   Marc Romanz   Craig Lochner   Al Trovinger   Howard Zirn*

We are currently implementing a two-part strategy for growing our business in the U.S. The first part of this strategy is to enhance our proposition to agents through new niche products and better service. We are developing Internet point-of-sale technology that will make it much easier for agents to do business with our companies. The program is currently in beta testing at Hamilton, our subsidiary based in Florida, and will be rolled out gradually to the other companies, starting this year. Expanding our markets is the second part of this strategy. We are using the state licences we gained with the acquisition of Walshire to expand the geographic coverage of the Kingsway group of companies.

*John Clark* *Gary Orndorff* *Richard Murray* *Roberto Espin* *Juan Lopez* *Gary Bhojwani* *Scott Wollney*

# U.S. Operations

## UNIVERSAL CASUALTY COMPANY

Universal is a leader in the Chicago non-standard automobile insurance market with a strong track record of profitability. The company wrote U.S. $44 million in premiums in 1999, a decrease of 1% over 1998.

Universal also broadened its product line last year by introducing motorcycle insurance.

The company is currently focused on implementing the systems and infrastructure necessary to manage growth. Once these areas have been addressed, Universal will gradually expand into new markets and product lines.

## AMERICAN SERVICE INSURANCE COMPANY

During 1999, American Service solidified its position in the non-standard market in Chicago, while introducing new commercial lines for tow trucks, taxis and limos, which have been well received and should contribute to the company's growth in 2000. Premiums for 1999 were U.S. $42.9 million, compared with U.S. $43.6 million last year. There was a significant change at the senior management level in 1999, as John Clark, formerly President of another Chicago based, non-standard automobile insurer, replaced Howard Zirn as President and Chief Executive Officer. Mr. Zirn will continue as a director of the Company.

In fiscal 2000, American Service will expand its markets by writing some higher-limits business for the non-metropolitan areas of Illinois as well as increasing business in Indiana and Missouri.

## SOUTHERN UNITED FIRE INSURANCE COMPANY

Southern United experienced a great deal of competition during 1999 and as a result, premiums decreased substantially. Gross premiums were U.S. $33.5 million, compared with U.S. $54.8 million in 1998. In order to retain premiums, the company has strengthened marketing efforts in Texas, Georgia and South Carolina in addition to Alabama, Louisiana and Mississippi, which are its core markets. These efforts were spearheaded by the company's new President, Craig Lochner, formerly the Vice President and Chief Financial Officer of American Service.

Competition in the southern states subsided during the early part of 2000. We believe this trend will enable the company to lower its combined ratio and contribute to the profitability of the Kingsway group in 2000.

# U.S. Operations

## Walshire Assurance Company

Walshire faced a great deal of competition in the long-haul trucking field in 1999, which affected premium volumes. For the year, premiums were U.S. $38.6 million, compared with U.S. $44 million in 1998. Prices for long-haul trucking insurance have increased in 2000 and the company expects profitability to improve concurrent with this trend.

Kingsway is working on a program to expand its non-standard automobile insurance facilities in the U.S. using Lincoln General's licences. Richard Murray, Southeastern Division Regional Manager, has transferred from Southern United to help develop the programs in Georgia, South Carolina, North Carolina, Tennessee and other adjoining states. Kingsway will appoint other district managers in 2000 to expand in many of the other states in which it is now licenced.

Walshire's corporate structure has changed recently. Comp America was dissolved in late 1999 and we are in the process of winding up Yorktowne Insurance Company, which will free up additional capital. During the year, Kingsway acquired a 25% interest in U.S.A. Insurance, an experienced managing general agent focused on the trucking market. Walshire will continue to work with both Avalon Risk Management and U.S.A. Insurance to expand its business.

## Hamilton Investments

Results for the Hamilton group were affected by competitive pricing in the Florida market. Premiums for fiscal 1999 were U.S. $25.7 million, compared with U.S. $31 million in 1998. The loss ratio of the Hamilton group was favourable but its overall combined ratio was affected by a higher expense ratio. Expenses do not increase in direct proportion to premiums, so the Company's expense ratio should decrease as premium volumes rise.

One of the major U.S. insurers that was offering low rates in Florida recently announced substantial rate increases as well as shorter policy terms. We believe that other companies will follow suit, which will enable Hamilton to capture a larger share of business and return to profitability in fiscal 2000.

# Additional Operations

## Avalon Risk Management

Avalon Risk Management continues to expand and now maintains eight offices throughout the U.S. in cities where there are a substantial number of customs brokers and freight forwarders. The Company's main business lines, customs bonds and importer bonds, continue to be profitable because of low loss ratios.

## Reinsurance Operations

The two reinsurance subsidiaries operated by Kingsway are contributing to the Company's profitability. The business written by the reinsurance companies is all business transferred from Kingsway's own companies.

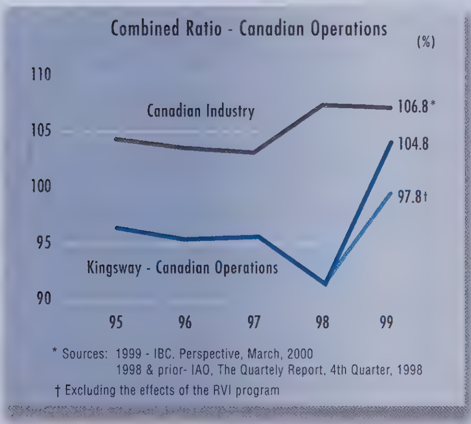
We do not reinsure business of other insurance companies since it is our desire to control the quality of underwriting and claims handling.

# Management's Discussion and Analysis

*The following discussion and analysis should be read in conjunction with the Company's consolidated financial statements and notes thereto which are included in this annual report.*

## Overview

Kingsway continues to follow a disciplined approach to underwriting by refusing to sacrifice underwriting profitability in order to increase premium revenue. The Company believes that property and casualty insurance is an excellent business and will produce superior returns if this discipline is followed. It provides profit from both underwriting and the investment income on shareholders' invested equity. 1999 was a very difficult year for many property and casualty insurance companies in North America. Many companies continued to sacrifice underwriting profitability to generate volume growth in order to use policyholders' premium dollars for investment. As a result of this increased competition and provisions taken in the fourth quarter, 1999 was the first year in its ten year history that Kingsway did not produce an underwriting profit.




The Company reported increases in unpaid claims of approximately $21 million in the fourth quarter related to unusually high claims activity and a residual value insurance ("RVI") program that the Company started in 1997. The Company first identified losses from this program during the fourth quarter and decided to take a conservative position by recording the policy maximum for the initial term program. In the last quarter of 1999, the Company cancelled the program, recorded losses of $12.9 million and wrote off acquisition costs of $1.5 million on this program, which increased the Company's combined ratio by 2.3% for the year. As a result of this program and other unusual fourth quarter events, the Company's combined ratio increased by approximately 4% for the year. Despite this increase, the Company's combined ratio of 102.6% was still significantly better than the industry averages in Canada and the United States, which are expected to be approximately 107%.

Following the exit of a major competitor during the middle part of the year, the Company saw a significant increase in premium volumes in its Canadian non-standard automobile product. Written premiums for the second half of 1999 increased 40% over the same period last year. The Company will realize the benefits of this growth during 2000, through significantly higher earned premiums.

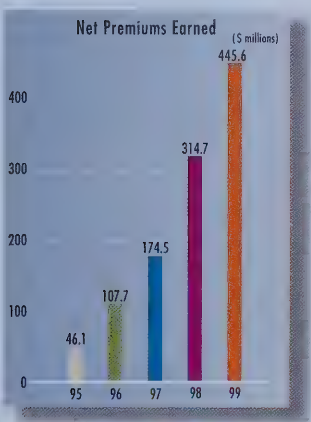
# Management's Discussion and Analysis

## Revenues

Revenues reflected in the consolidated financial statements are derived from insurance premiums earned and from investment income and premium finance income.

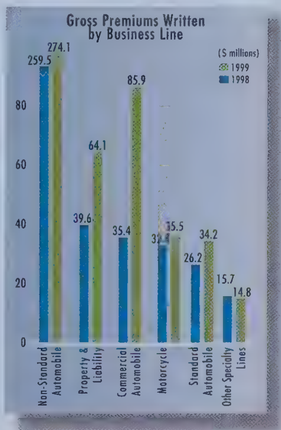
## Premium income

Gross premiums written increased by 24% over 1998 levels, from \$409.2 million to \$508.6 million in 1999. Gross premiums written from the Company's Canadian operations increased by 12% to \$234 million. This growth was attributable to increases in non-standard automobile business which increased by 40% during the last half of 1999. Gross premiums written by the Company's U.S. operations increased by 37% to \$274.3 million, compared with \$200.3 million in 1998. Net premiums earned were \$445.6 million, an increase of 42% over the \$314.7 million earned in 1998. This significant growth resulted from the increase in gross premiums and the increased retention of U.S. business. Net premiums written from U.S. operations amounted to \$249.9 million, which was 91% of the gross premiums written, compared to \$156.0 million with a retention rate of 78% in 1998. Net premiums earned from Canadian operations were \$207.8 million, an increase of 8% over the \$191.9 million earned in 1998.




Unearned premiums increased by 2.4% to \$193.4 million at the end of 1999 from \$188.8 million at the beginning of the year. With the Company's history of underwriting profit, the equity in the unearned premiums should result in further underwriting profits during 2000.

Non-standard automobile continues to be the main product of the group. Premiums for this line increased to \$274.1 million from \$259.5 million in 1998, an increase of 6%, and now represents 54% of the Company's total business.




Since its IPO in December, 1995, the Company has diversified its revenue stream geographically through acquisitions in Canada and the United States. Gross premiums written from the Company's non-standard automobile operations in the U.S. were \$205.5 million in 1999, compared with \$199.2 million in 1998. Illinois continues to be Kingsway's most important market and now contributes 25% of total gross premiums. The Company writes approximately 20% of the large non-standard automobile market in Chicago through Universal Casualty Company and American Service Insurance Company, Inc.

Premiums from long-haul trucking and other commercial automobile classes were \$85.9 million in 1999, compared with \$35.4 million in 1998. This reflects the addition of Walshire, which writes primarily long-haul trucking business.

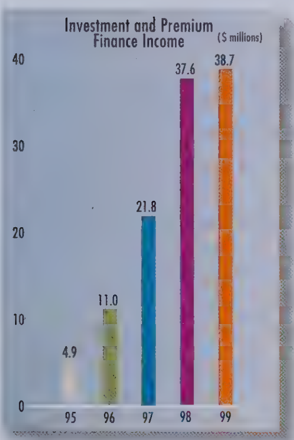
## Management's Discussion and Analysis

Motorcycle insurance continues to be a very important line for Kingsway, producing $35.5 million of premiums in 1999, increasing 8% compared with $32.8 million in 1998.

### Investment and Premium Finance Income

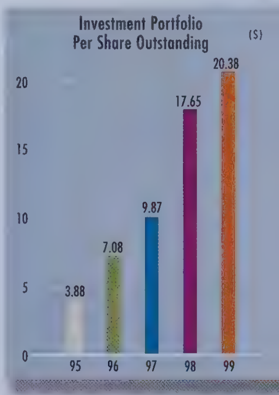
The Company's focus on underwriting profit provides access to a substantial 'float' (represented by unearned premiums and unpaid claims) which is invested for the benefit of the Company's shareholders. When the Company produces an underwriting profit, these funds have no cost. Most insurance companies produce an underwriting loss wherein their float has actually been acquired at a cost (i.e. their underwriting loss).

The Company provides the option of monthly payments on policies, whereby the insured is only required to pay a portion of the premium when the policy is placed in force and the balance in monthly installments. Because premiums for non-standard automobile policies are generally much higher than on policies written by standard-market companies, a substantial portion of Kingsway's written premiums are financed. The Company has limited credit risk on these receivables, as premiums are collected in advance of the period in which they are earned.




Investment and premium finance income increased by 3% in 1999 to $38.7 million, compared to $37.6 million in 1998. This increase is attributable to the growth in the investment portfolio and financed premiums receivable, which increased by 9% from $633.8 million at the end of 1998 to $693.0 million at the end of 1999.

The Company's investment portfolio and financed premiums receivable represented $20.38 for each share outstanding at December 31, 1999, compared with $17.65 for each share at the end of 1998, an increase of 15%.




At December 31, 1999 the carrying value of the investment portfolio was approximately $24.5 million higher than the fair value of the portfolio based on prevailing market prices. The Company has reviewed the portfolio and has ascertained that the carrying amounts are expected to be recovered. The fixed income portfolio had a mark to market deficiency of approximately $15.9 million. This deficiency was caused by fluctuations in interest rates during 1999. The Company does not expect to liquidate this portfolio and has the intention and the ability to hold the securities to their maturity, therefore it is unlikely that any of these losses will crystallize. The mark to market difference will fluctuate with changes in interest rates.

## Management's Discussion and Analysis

The following table shows the investment yield that the portfolio has provided over the last 5 years:

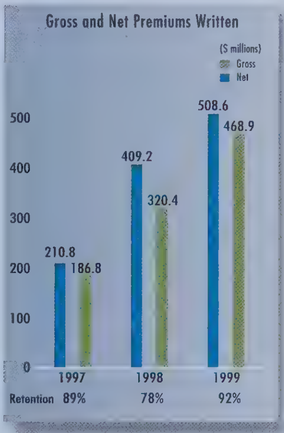
| (in $000's) | 1999 | 1998 | 1997 | 1996 | 1995 |
|---|---|---|---|---|---|
| Total realized return | 38,748 | 37,599 | 21,836 | 11,049 | 4,913 |
| Change in unrealized gains/(losses) | (23,743) | (2,108) | (3,939) | 2,771 | 716 |
| Total return | 15,005 | 35,491 | 17,897 | 13,820 | 5,629 |
| Total return yield (%) | 2.2% | 7.5% | 6.7% | 10.4% | 9.3% |
| Total realized return (%) | 5.6% | 8.0% | 8.2% | 8.3% | 8.1% |

The Investment Committee of the Board comprises individuals with extensive knowledge and expertise in the area of investments which they have derived over many years. The Investment Committee closely monitors the performance of external managers to ensure that they provide better than average returns for shareholders. This is an approach that Kingsway feels comfortable with rather than bringing the function in-house. The Company is satisfied with the performance from its external managers in 1999 despite difficult market conditions.

The Company, through the recommendations of the Investment Committee of the Board of Directors, has engaged the external expertise of Conning Asset Management, Burgundy Asset Management, Deans Knight, Perigee, Phillips, Hager and North and Royal Bank of Canada (Caribbean) to manage segregated portfolios of the Company's investments.

## Reinsurance

Reinsurance is an industry practice by which insurance companies reduce exposure to potential severe loss occurrences by purchasing protection from other insurance companies referred to as reinsurers. Through Kingsway's relationships with its reinsurance partners who have shared in the profitable growth, it has been able to purchase reinsurance coverage at much lower rates while significantly reducing the amount of risk that its subsidiaries retain for its own account. Since 1986, Employers Reinsurance Company, the third largest reinsurer in the world, has provided most of Kingsway's reinsurance protection.




The Company's reinsurance arrangements allow it to retain most of its written premiums for its own account while minimizing claims exposure. In 1999 the Company retained 92% of premiums written compared with 78% in 1998, due to the termination of quota-share reinsurance treaties previously in force at the subsidiaries acquired in the United States.

Because of the strong capitalization of the group, management's philosophy is to purchase reinsurance to limit the Company's exposure to larger and catastrophic type losses. Most of the non-standard automobile business that Kingsway writes in the United States is properly priced and the Company's liability is restricted to the minimum statutory liability limits, i.e. U.S. $20,000 per person, U.S. $40,000 per occurrence and, therefore, Kingsway is comfortable in retaining all of this business within its group.

During 1999, the Company's reinsurance program limited its liability to a maximum amount on any one loss of $1 million in the event of a property or liability

claim, and $1.5 million per occurrence in the event of a catastrophe. These retentions are small relative to industry averages and represent only 0.4% and 0.6% respectively of the Company's statutory surplus of $234 million at December 31, 1999. The Company had protection against catastrophic losses for 1999 of $25 million in Canada, and U.S. $7.5 million in the United States.

## Claims Incurred and Unpaid Claims

Provisions are established for unpaid claims by the Company as claims are reported. The provisions are subsequently adjusted during the course of settlement as additional information becomes known. A provision is also made for management's calculation of factors affecting the future development of claims including claims incurred but not reported ("IBNR") based on the volume of business currently in force and the historical experience on claims.

As time passes, more information about the claims becomes known and the provision estimates are appropriately adjusted upward or downward to reflect this additional knowledge. Because of the elements of uncertainty encompassed in this estimation process, and the extended time it can take to settle many of the more substantial claims, several years of experience are required before a meaningful comparison of actual losses to the original provisions can be developed.

Provisions for unpaid claims are established to reflect the estimate of the full amount of all expected costs of all unsettled claims at the balance sheet date, including incurred but not reported claims. Actual claims costs will vary from the estimate for a variety of reasons, including additional information with respect to the facts and circumstances of the claim and awards of pre-settlement interest. The provisions for unpaid claims are not discounted to take into consideration the time value of money, although claims will be settled over a period of time over which the Company derives additional income from investing the funds set aside to pay future claims.

The development of the provision for claims is shown by the difference between estimates of claims as of the initial year end and the re-estimated liability at each subsequent year end. This is based on actual payments in full or partial settlement of claims, plus re-estimates of the claims required for claims still open or claims still unreported. Favourable development, or reserve redundancy, means that the original claim estimates were higher than subsequently determined. Unfavourable development, or reserve deficiency, means that the original claim estimates were lower than subsequently determined. The Company's objective is to ensure that it continues to show favourable development so that future changes in claim estimates benefit future earnings.

For the year ended December 31, 1999, the consolidated reserve redundancy on the unpaid claims established at December 31, 1998 amounted to $6.4 million which is approximately 2% of the net unpaid claims as of December 31, 1998. Both Canadian and U.S. operations reported a redundancy in prior year unpaid claims during 1999.

## Management's Discussion and Analysis

The following table illustrates the unpaid claims provisions, net of recoveries from reinsurers, established for the years ended December 31, 1991 to 1998 for the Canadian operations compared to the re-estimation of those liabilities as at December 31, 1999:

| ($'000's) | 1998 | 1997 | 1996 | 1995 | 1994 | 1993 | 1992 | 1991 |
|---|---|---|---|---|---|---|---|---|
| Unpaid claims originally established - end of year | $133,857 | $124,944 | $65,142 | $24,322 | $16,987 | $10,945 | $11,648 | $12,261 |
| Cumulative paid as of: | | | | | | | | |
| One year later | 56,151 | 46,083 | 31,309 | 13,665 | 12,384 | 5,984 | 4,329 | 4,176 |
| Two years later | | 74,479 | 42,108 | 19,404 | 18,633 | 8,032 | 6,615 | 6,589 |
| Three years later | | | 55,214 | 25,273 | 22,066 | 10,347 | 7,910 | 8,394 |
| Four years later | | | | 31,738 | 25,456 | 11,739 | 9,255 | 9,464 |
| Five years later | | | | | 29,300 | 12,576 | 10,210 | 10,395 |
| Six years later | | | | | | 14,259 | 10,517 | 11,193 |
| Seven years later | | | | | | | 11,271 | 11,247 |
| Eignt Years later | | | | | | | | 11,233 |
| Incurred loss as of: | | | | | | | | |
| One year later | 130,340 | 112,075 | 62,022 | 27,705 | 22,776 | 11,395 | 10,621 | 11,470 |
| Two years later | | 114,922 | 65,122 | 27,467 | 25,628 | 12,187 | 10,290 | 11,050 |
| Three years later | | | 66,368 | 31,707 | 25,580 | 12,256 | 10,550 | 10,808 |
| Four years later | | | | 32,254 | 27,589 | 12,164 | 10,167 | 11,001 |
| Five years later | | | | | 28,243 | 13,004 | 9,999 | 10,805 |
| Six years later | | | | | | 13,310 | 10,245 | 10,883 |
| Seven years later | | | | | | | 10,505 | 10,952 |
| Eight years later | | | | | | | | 10,978 |
| As at December 31, 1999: | | | | | | | | |
| Cumulative (redundancy) deficiency | (3,517) | (10,022) | 1,226 | 7,932 | 11,256 | 2,365 | (1,143) | (1,283) |
| Cumulative (redundancy) deficiency as a % of reserves originally established | (2.63%) | (8.02%) | 1.88% | 32.61% | 66.26% | 21.61% | (9.81%) | (10.46%) |

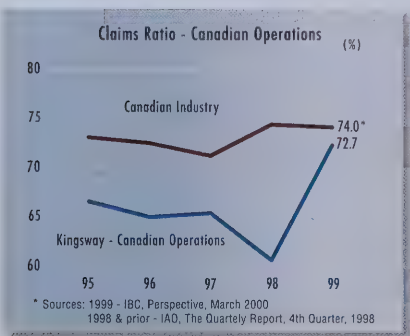
For the last two fiscal years, the Company's Canadian operations have reported a reserve redundancy based on claims experience in the subsequent year. Similar to many companies in the Canadian property and casualty insurance industry, Kingsway experienced reserve deficiencies on accident years 1993 and 1994 as a result of the automobile legislation in force in Ontario during those years under Bill 164. As a result of late reported claims and the difficulty in estimating claims under Bill 164, the unpaid claims set as of the end of fiscal years 1993, 1994 and 1995 showed reserve deficiencies. These deficiencies were recognized in subsequent periods and are reflected in the above table. This legislation was repealed and replaced by Bill 59 in Ontario on November 1, 1996. Bill 59 eliminated many of the problems that were prevalent under Bill 164.

## Management's Discussion and Analysis

The following table illustrates the unpaid claims provisions, net of recoveries from reinsurers, established for the year ended December 31, 1998 for the U.S. operations compared to the re-estimation of those liabilities as at December 31, 1999:

| (in U.S. dollars) ($'000's) | 1998 |
|---|---|
| Unpaid claims originally established - end of year | $115,881 |
| Cumulative paid as of: | |
| One year later | 54,988 |
| Incurred loss as of: | |
| One year later | 113,959 |
| As at December 31, 1999 | |
| Cumulative (redundancy) deficiency | (1,922) |
| Cumulative (redundancy) deficiency as a % of reserves originally established | (1.66%) |

The claims ratio for the year ended December 31, 1999 was 68.4% compared with 61.6% for 1998. Excluding the impact of the RVI program, the claims ratio for 1999 was 66.1%. The claims ratio for the Canadian operations was 72.7% (67.9% excluding RVI) which continued to outperform the Canadian industry average of 74%† for the tenth consecutive year. Many competitors, particularly in Ontario, continued to lower their prices in 1999 in order to attract more business which led to a continuation of poor underwriting results. We anticipate that the poor industry results in 1999 will have a positive affect on market pricing in the year 2000.




The loss ratio for the U.S. operations was 64.5% compared to the average for the U.S. industry of 64.8%††.

## Expenses, Excluding Claims Incurred

The Company's expense ratios continue to be below industry levels in Canada and the United States. The expense ratio for 1999 increased slightly to 34.2%, compared with 32.3% in 1998. The increase is attributable to general and administrative expenses which were 13.8% of premiums earned compared to 12.6% in 1998. The general and administrative expenses were higher as a percentage of net premiums earned due to volume decreases caused by market conditions in the southern U.S.

General and administrative expenses for the Canadian operations were 11.3% of net premiums earned which is an improvement over the 11.5% of net premiums earned for 1998. For the U.S. operations, general and administrative expenses were 15.0%, again an improvement over the 15.2% for 1998. However, as U.S. operations now represent a larger part of the consolidated group in 1999 than they did in 1998, the overall general and administrative expense ratio increased from 12.6% in 1998 to 13.8% in 1999.

During the year, the Company entered into a five year banking facility. Under the facility, the Company borrowed U.S. $100 million from a syndicate of four banks. The Company purchased interest rate swap instruments which fixed its interest rates on the facility

† Source: IBC *Perspective*, March 2000

†† Source: 1999 estimate. A.M. Best *Review Preview*, January 2000

## Management's Discussion and Analysis

at 5.91% plus a spread, currently 1%, based on the Company's credit rating.

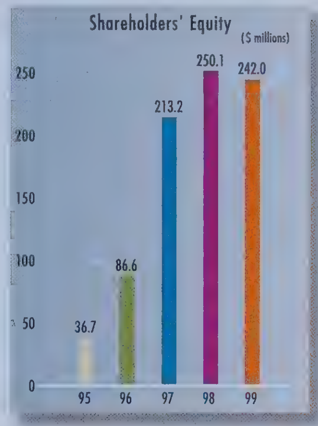
Kingsway's acquisitions in Canada and the U.S. have required goodwill amortization of approximately $5.0 million to be charged against earnings in 1999 under generally accepted accounting principles ("GAAP"). When Kingsway buys a business, it is usually for a premium over the GAAP net worth. The premium over GAAP net worth has to be recorded as goodwill on the balance sheet, and be amortized over a period no longer than 40 years. Kingsway has conservatively chosen a 15 year amortization period.

It is also noteworthy that one of the most valuable assets in the group, Kingsway General, is carried in the financial statements without any goodwill attributed to it. Over the Company's period of growth, Kingsway General has been the most profitable company in the group and has shown substantial organic growth over the last four years. Relative to other recent acquisition prices for less profitable Canadian companies, this represents a substantial unrecorded asset in the Company's financial statements.

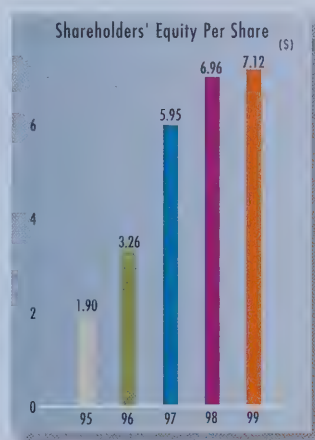
Kingsway expects that the economic value of the businesses it has acquired will increase as it makes acquisitions for growth and to enhance the value for shareholders.

## Capital Resources

As a result of the Company's continued profitability, shareholders' equity was $242.0 million at December 31, 1999 compared with $250.1 million at December 31, 1998. Shareholders' equity per share outstanding was $7.12 at December 31, 1999, an increase of 16 cents or 2% compared to the $6.96 per share at December 31, 1998. Since the Company's initial public offering in December 1995, the book value per share has grown at a compound annual growth rate of 43%.




The Company continues to believe that its shares represent an excellent investment, based on the Company's current business and future business prospects. During the year the Company purchased 2,003,900 shares, or 5.6% of the opening shares outstanding, at prices ranging from $7.05 to $9.00. This includes 1,690,400 shares between September 8, 1999, the renewal of the Normal Course Issuer Bid, and December 31, 1999. During 1999 the Company used $16.4 million from internally generated sources to fund these purchases.




The Company does not presently intend to declare regular dividends on its common shares in the foreseeable future. As long as its business continues to grow, Kingsway intends to reinvest earnings to enable it to further increase premium volumes and to also use surplus funds to repurchase the Company's shares. The Company has targeted an average return on equity of over 15% or more over a rolling five year period.

The average return on equity for the past five fiscal years has been 15.3% and 20.7% for the past 10 fiscal years. The Company believes this strategy is of long-term benefit for the shareholders.

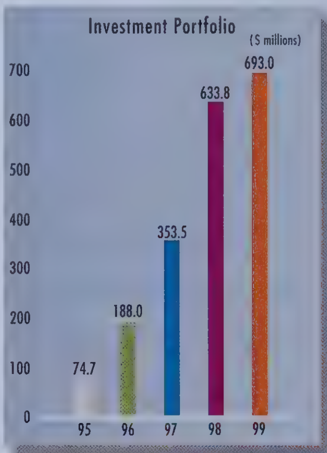
Kingsway has an investment grade rating of BBB- from Standard & Poor's, a primary rating agency for debt in North America. On February 23, 1999, the Company entered into a U.S. $100 million unsecured credit facility with a syndicate of two Canadian and two U.S. banks. This facility is for a fixed term of five years and one day, and the Company had the option to borrow at a floating rate according to banks' prime or for a fixed term at a fixed rate of LIBOR plus a spread which is commensurate with the Company's credit rating. The Company drew down the facility in full and entered into an interest rate swap transaction whereby the Company fixed its rate on the U.S. $100 million debt at 5.91% plus the spread for the term of the facility.

Kingsway Financial and its Canadian subsidiaries, Kingsway General, York Fire and Jevco are all rated "A" excellent by A.M. Best, the primary rating agency for insurance companies. Lincoln General is rated "A-" excellent by A.M. Best.

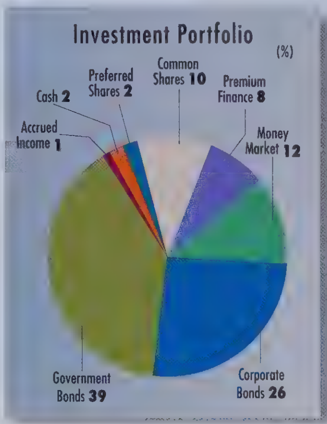
## Liquidity

The purpose of liquidity management is to ensure that there is sufficient cash to meet all financial commitments and obligations as they fall due. Management believes that the Company has the flexibility to obtain, from internal sources, the funds needed to fulfill its cash requirements during the current financial year and also to satisfy regulatory capital requirements.

The Company's insurance operations create liquidity by collecting and investing premiums from new and renewal business in advance of earning those premiums and paying claims. This creates a liquid float of money that the Company holds on behalf of its policyholders. The Company earns investment income on this float until it pays the claim and consequently investment income on this float is available for the benefit of its shareholders.




As at December 31, 1999, the Company's investment portfolio, including premium finance receivables, amounted to $693.0 million, an increase of 23% over the December 31, 1998 portfolio. The portfolio comprised primarily of short term and medium term securities including Treasury Bills, Bankers Acceptances, Government Bonds and Corporate Bonds (the majority of which are rated A or higher).



Management's Discussion and Analysis

## Risk Factors

### *Unpaid Claims Liabilities*

The Company maintains provisions for unpaid claims liabilities to provide for its estimated ultimate liability for claims. These provisions do not represent an exact calculation of liability, but are estimates involving actuarial and statistical projections at a given point in time of what the Company expects to be the cost of the ultimate settlement and administration of known and unknown claims. The provisions are based on facts and circumstances then known, estimates of future trends in claims severity and other variable factors such as future inflation increases, but without reflecting the time value of money.

Although the Company's management believes its overall provision levels to be adequate to satisfy its obligations under existing policies, actual losses may deviate, perhaps substantially, from the amounts reflected in the Company's financial statements. To the extent provisions prove to be inadequate or redundant, the Company would have to amend such provisions and reflect this change through earnings in future periods. Kingsway had unpaid claims provisions of $444.7 million on the balance sheet at December 31, 1999.

### *Pricing*

Prices in the insurance and reinsurance industry are cyclical and can fluctuate quite dramatically. With under-reserving, competitors can price below underlying costs for many years and still survive. Many competitors are willing to write premiums at inadequate rates in order to maintain or grow their volumes.

Kingsway's strategy is to refuse to sacrifice underwriting profitability to increase volume. This strategy may result in declines in volume when competitors are willing to write business at inadequate rates.

### *Regulation*

Property and casualty insurance companies are subject to regulation by government agencies. At times governments may attempt to limit auto insurers' profits in order to become popular with voters. As in any regulated industry, it is possible that future regulatory changes or developments may impede rate increases or other actions that the Company might want to take to enhance its operating results or fundamentally change the business environment in which the Company operates.

Regulatory requirements applying to premium rates vary by province or state, but generally provide that rates not be "excessive, inadequate or unfairly discriminatory." In general, the Company's insurance subsidiaries must file and obtain approval of rates for insurance directly underwritten with the insurance department of each province or state in which they operate.

The Company is also subject to statutes governing insurance holding company systems in various jurisdictions. Typically, such statutes require the Company to file information periodically with insurance regulatory authorities, including information concerning its capital structure, ownership, financial condition and general

## Management's Discussion and Analysis

business operations. Under the terms of applicable U.S. state statutes, any person or entity desiring to purchase more than a specified percentage (commonly 10%) of the Company's outstanding voting securities is required to obtain regulatory approval for the purchase.

Regulators may also limit the Company's access to each insurance subsidiary's net income and shareholders' capital without their prior approval.

### *Dependence on Key Personnel*

The Company's success will largely depend upon the efforts and abilities of certain key personnel. The departure of such key personnel from the Company could have a material adverse effect upon the Company's operations.

Kingsway operates as a holding company through subsidiaries that have their own management and operate autonomously, which mitigates the risk of dependence on a small number of key personnel.

### *Reinsurance Recoverables*

The availability and cost of reinsurance are subject to prevailing market conditions which are beyond the control of the Company and may affect the Company's level of business and profitability. Reinsurance ceded does not relieve the Company of its ultimate liability to its insureds in the event that any reinsurer is unable to meet its obligations under the reinsurance contracts. In the normal course of its business, Kingsway had $135.5 million recoverable from well capitalized reinsurers and other insurers as at December 31, 1999.

### *Catastrophes*

Property and casualty insurers are subject to claims arising out of catastrophes. Catastrophes can be caused by various events including hurricanes, earthquakes, hail, fires and explosions, and the incidence and severity of catastrophes are inherently unpredictable. To contain the potential impact of catastrophes, the Company utilizes reinsurance to limit its claims exposure. In 1999 the Company had protection of up to $25 million in excess of $1.5 million per occurrence in Canada, and up to U.S. $7.5 million in excess of U.S. $1 million in the United States.

### *Competition*

The Canadian and U.S. insurance markets are highly competitive, fragmented, and over-capitalized. Premium growth in recent years has lagged the rate of inflation, whilst at the same time industry capital has grown at a much faster rate. This has led to severe underpricing by many companies in order to grow their premium revenues. Kingsway's operating strategy is to refuse to sacrifice underwriting profitability for premium growth.

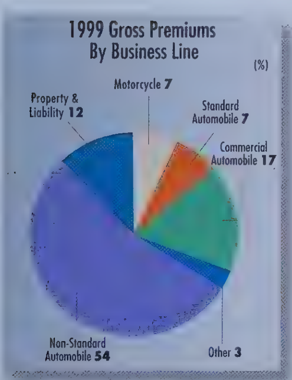
## Management's Discussion and Analysis

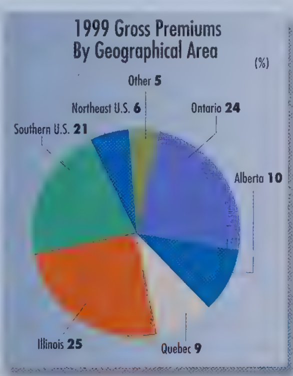
### *Investments*

Approximately 65% of the Company's investment portfolio is comprised of fixed income securities. Due to declines in recent years in the yields on fixed income securities, the Company faces reinvestment risk because as these securities mature the funds may be reinvested at lower rates than currently prevail.

### *Concentration of Business*

As highlighted in Note 9 to the financial statements, approximately 61% (1998 - 70%) of the Company's gross premiums written were attributable to the automobile insurance business. To the extent that this sector of the insurance business is affected adversely for any reason, the Company's operations will be disproportionately affected due to its substantial reliance on this business. This risk is mitigated somewhat by the Company's geographic diversification as indicated in Note 9 to the financial statements.




### *Expansion*

The Company intends to continue its expansion and diversification, and to the extent that these activities may not be as profitable as the Company's existing business lines, net income may be affected. Moreover, the expansion of the business of the Company and its insurance subsidiaries will depend upon the ability of management to successfully implement the Company's strategy. There is no assurance of future internal growth in the principal subsidiaries of the Company. While management currently has no plans to make further acquisitions, there is no assurance that acquisitions will not be made as such transactions will depend on various factors, including price and other terms and conditions which must be negotiated with possible vendors.

### Foreign Exchange

The Company has assets, liabilities, revenues and costs that are associated with its investments in its foreign subsidiaries, partly in the United States. Consequently, such amounts are subject to currency fluctuations which at times may be significant.

### Goodwill

The Company has recorded goodwill on the acquisition of its subsidiaries and continually assesses its value. Continued profitability of the acquired subsidiary is a requirement to support the accounting value of goodwill.

# Management's Discussion and Analysis

## Outlook

Opportunities for growth for 2000 exist in many areas of the Company's operations. In Canada, we continue to experience irrational pricing by many competitors in order to maintain their premium volumes. This has resulted in poorer underwriting results and deteriorating profitability of the Canadian insurance industry, which showed a combined ratio of 106.8%† in 1999 compared with 107.8%† in 1998 (the 1998 results were inflated by the affects of the Quebec ice storm). Many insurance companies have been unable in 1999 to derive the same level of investment returns through realized gains which were available in 1998.

Management believes that the poorer underwriting results experienced in 1999 will continue for many companies during 2000 as they enter the year with unearned premiums reflecting pricing inadequacy. This is leading to several companies requesting rate increases which will take time to implement and to produce the full benefit. Lack of investment gains and the significant reinvestment risk that many of these companies face, as their fixed income portfolios mature, should also result in market conditions tightening during 2000. Reinsurance rates are also firming significantly. Management believes that these factors will focus companies on improving underwriting profitability through better pricing of risks which should create many opportunities for growth in Kingsway.

In the United States there are many opportunities for growth through introducing Kingsway's motorcycle product and non-standard automobile into new states. The Company also expects to see improved pricing and market conditions in the southern states.

Management continues to see many opportunities for organic growth in the U.S., where the insurance industry is extremely fragmented, overcapitalized, extremely competitive and has recently shown premium growth that is lower than the rate of inflation. These factors often lead to increased pricing and consolidation. Management believes these conditions will create many opportunities for selective acquisitions in the future at more reasonable prices than were prevalent in recent years.

† Source: IBC *Perspective*, March 2000

## Management's Responsibility for Financial Reporting

The accompanying consolidated financial statements and the financial information in the annual report have been prepared by management.

The financial statements have been prepared by management in accordance with generally accepted accounting principles, as described in note 1 to the consolidated financial statements. The financial statements include certain amounts which are based on management's estimates and judgements using information available up to the date of their submission to the Board of Directors for approval. Management has determined such amounts on a reasonable basis, and are satisfied that the consolidated financial statements contained in this annual report present fairly the Company's financial position and results of operations and that the financial information contained elsewhere in this annual report is consistent with the consolidated financial statements.

The accounting procedures and related systems of internal control are designed to provide reasonable assurance that the assets are safeguarded and that the financial records are reliable.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the financial statements, on the recommendation of the Audit Committee. The Audit Committee also considers, for review by the Board and approval by the shareholders, the appointment of the external auditors.

The consolidated financial statements have been audited by KPMG LLP whose report outlines the scope of their examination and their opinion on the consolidated financial statements.

The Company's insurance subsidiaries have appointed KPMG LLP as the independent actuary to provide an opinion, in accordance with accepted actuarial practices, on the appropriateness of the amount of unpaid claims liabilities reflected in the consolidated balance sheets.

William G. Star
President and Chief Executive Officer

W. S. J

W. Shaun Jackson
Executive Vice President and Chief Financial Officer.

## Auditors' Report

We have audited the consolidated balance sheets of Kingsway Financial Services Inc. as at December 31, 1999 and December 31, 1998 and the consolidated statements of operations and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1999 and December 31, 1998 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants
Toronto, Canada
February 18, 2000

## Appointed Actuary's Report

*To the Shareholders of Kingsway Financial Services Inc.*

I have valued the policy liabilities of Kingsway Financial Services Inc. for its consolidated balance sheets at December 31, 1999 and their change in the statement of operations for the year then ended in accordance with accepted actuarial practice, including selection of appropriate assumptions and methods, except as described in the following paragraph.

In accepted actuarial practice, the valuation of policy liabilities reflects the time value of money. Insurance regulations in some jurisdictions require that the valuation of some policy liabilities not reflect the time value of money. My valuation complies with that directive.

In my opinion, the amount of policy liabilities makes appropriate provision for all policyholders' obligations and the consolidated financial statements fairly present the results of the valuation.

Claudette Cantin

Claudette Cantin, F.C.I.A.
February 18, 2000

# Consolidated Balance Sheets

## Assets

As at December 31, 1999 and December 31, 1998

| (In thousands of dollars) | 1999 | 1998 |
|---|---|---|
| Cash | $ 12,062 | $ 7,179 |
| Investments (note 3) | 674,134 | 620,450 |
| Accrued investment income | 6,808 | 6,153 |
| Accounts receivable and other assets | 68,946 | 70,082 |
| Due from reinsurers and other insurers (note 5) | 135,526 | 167,343 |
| Deferred policy acquisition costs | 40,185 | 38,691 |
| Income taxes recoverable | 6,477 | - |
| Future income taxes | 20,370 | 18,133 |
| Capital assets | 26,719 | 20,770 |
| Goodwill | 80,483 | 65,802 |
| | $ 1,071,710 | $ 1,014,603 |

## Liabilities and Shareholders' Equity

| | 1999 | 1998 |
|---|---|---|
| **Liabilities** | | |
| Bank indebtedness (note 10) | $ 153,270 | $ 100,863 |
| Accounts payable and accrued liabilities | 26,470 | 23,003 |
| Income taxes payable | - | 1,827 |
| Unearned premiums (note 5) | 193,375 | 188,810 |
| Unpaid claims (notes 5 and 7) | 444,689 | 446,245 |
| Other liabilities | 11,864 | 3,790 |
| | 829,668 | 764,538 |
| **Shareholders' equity** | | |
| Share capital (note 4) | 148,462 | 164,509 |
| Currency translation adjustment | 870 | 6,444 |
| Retained earnings (note 11(b)) | 92,710 | 79,112 |
| | 242,042 | 250,065 |
| | $ 1,071,710 | $ 1,014,603 |

*See accompanying notes to consolidated financial statements.*

On behalf of the Board:

Thomas A. Di Giacomo
Director

David H. Atkins
Director

# Consolidated Statements of Operations and Retained Earnings

| Years ended December 31, 1999 and December 31, 1998<br>(In thousands of dollars, except per share amounts) | 1999 | 1998 |
|---|---|---|
| **Gross premiums written** | **$ 508,595** | $ 409,200 |
| **Net premiums written** | **$ 468,874** | $ 320,396 |
| **Revenue** | | |
| Net premiums earned (note 5) | **$ 445,557** | $ 314,651 |
| Investment income | **32,037** | 24,771 |
| Premium finance income | **5,761** | 5,883 |
| Net realized gains | **950** | 6,945 |
| | **484,305** | 352,250 |
| **Expenses** | | |
| Claims incurred (notes 5 and 7) | **304,541** | 193,801 |
| Commissions and premium taxes (note 5) | **90,844** | 61,927 |
| General and administrative expenses | **61,630** | 39,848 |
| Interest expense | **10,557** | 2,034 |
| | **467,572** | 297,610 |
| Income before income taxes | **16,733** | 54,640 |
| Income taxes (note 6) | | |
| Current | **1,145** | 9,466 |
| Future | **(3,041)** | 11,407 |
| | **$ (1,896)** | $ 20,873 |
| Net income before goodwill | **18,629** | 33,767 |
| Amortization of goodwill, net of applicable income tax | **5,031** | 2,756 |
| Net Income | **13,598** | 31,011 |
| Retained earnings, beginning of year | **79,112** | 48,101 |
| Retained earnings, end of year | **$ 92,710** | $ 79,112 |
| Earnings per share before goodwill (note 4) | | |
| Basic | **$ 0.52** | $ 0.93 |
| Fully diluted | **$ 0.52** | $ 0.93 |
| Earnings per share (note 4) | | |
| Basic | **$ 0.38** | $ 0.86 |
| Fully diluted | **$ 0.38** | $ 0.86 |

*See accompanying notes to consolidated financial statements.*

# CONSOLIDATED STATEMENTS OF CASH FLOWS

| Years ended December 31, 1999 and December 31, 1998 (In thousands of dollars) | 1999 | 1998 |
|---|---|---|
| **Cash provided by (used in)** | | |
| **Operating activities** | | |
| Net income | **$ 13,598** | $ 31,011 |
| Items not affecting cash | | |
| Amortization | **8,307** | 4,789 |
| Future income taxes | **(1,535)** | 8,197 |
| Net realized gains | **(950)** | (6,945) |
| Amortization of bond premiums and discounts | **(65)** | (392) |
| | **19,355** | 36,660 |
| Change in non-cash balances | | |
| Deferred policy acquisition costs | **(1,036)** | 5,647 |
| Due from reinsurers and other insurers | **31,259** | 2,121 |
| Unearned premiums | **1,917** | 1,093 |
| Unpaid claims | **(8,013)** | 22,267 |
| Net change in other non-cash balances | **(9,762)** | (4,738) |
| | **33,720** | 63,050 |
| **Financing activities** | | |
| (Cancellation) of share capital, net | **(16,047)** | (638) |
| Increase in bank indebtedness | **46,429** | 86,569 |
| | **30,382** | 85,931 |
| **Investing activities** | | |
| Purchase of investments | **(1,188,108)** | (1,178,756) |
| Proceeds from sale of investments | **1,159,847** | 1,164,842 |
| Financed premiums receivable, net | **(1,508)** | 7,872 |
| Purchase of subsidiaries | **(30,683)** | (147,596) |
| Cash acquired on purchase of subsidiaries | **3,660** | 9,191 |
| Additions to capital assets | **(2,427)** | (3,135) |
| | **(59,219)** | (147,582) |
| Increase in cash during the year | **4,883** | 1,399 |
| Cash, beginning of year | **7,179** | 5,780 |
| Cash, end of year | **$ 12,062** | $ 7,179 |
| **Supplementary disclosure of cash information** | | |
| Cash paid for | | |
| Interest | **$ 11,263** | $ 1,022 |
| Income taxes | **7,262** | 6,109 |
| Cash dividends and interest received | **34,422** | 26,681 |

*See accompanying notes to consolidated financial statements.*

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

*(Tabular amounts in thousands of dollars)*

## 1. Summary of significant accounting policies

Kingsway Financial Services Inc. (the "Company") was incorporated under the Business Corporations Act (Ontario) on September 19, 1989. The Company is a financial services holding company which, through its subsidiaries, is engaged in property and casualty insurance.

### (a) Principles of consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries all of which are wholly-owned. Acquisitions are accounted for by the purchase method, whereby the results of acquired companies are included only from the date of acquisition, and divestitures are included up to the date of disposal.

### (b) Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Actual results could differ from these estimates.

### (c) Investments

Fixed term investments are carried at amortized cost providing for the amortization of the discount or premium on a straight line basis to maturity. Investments in common and preferred shares are carried at cost. Where a decline in value of an investment is considered to be other than temporary a writedown of the investment to its estimated recoverable amount is recorded.

### (d) Investment income

Investment income is recorded as it accrues. Dividend income on common and preferred shares is recorded on the ex-dividend date. Gains and losses on disposal of investments are determined and recorded as at the settlement date, and are calculated on the basis of average cost.

### (e) Goodwill

The excess of purchase cost over the fair value of the net assets of acquired businesses is amortized on a straight-line basis over their estimated useful life which range from ten to fifteen years. The Company assesses the continuing value of goodwill based on the underlying cash flows and operating results of subsidiaries.

### (f) Deferred policy acquisition costs

Deferred policy acquisition costs represent certain costs such as commissions and premium taxes related to the acquisition of new and renewal premiums written during the period and are expensed as the related premiums are recorded as income. The method followed in determining the deferred policy acquisition costs limits the deferral to its realizable value by giving consideration to losses and expenses expected to be incurred as premiums are earned.

### (g) Premium revenue and unearned premiums

The Company earns motorcycle premiums over the period of risk covered by the policy based on the Company's experience. The Company earns premium revenue on all other lines evenly over the period covered by each individual insurance contract. Unearned premiums represent the portion of premiums written related to the unexpired risk portion of the policy at the year end.

The reinsurers' share of unearned premiums is recognized as amounts recoverable using principles consistent with the Company's method for determining the unearned premium liability.

### (h) Unpaid claims

The provision for unpaid claims includes adjustment expenses and represents an estimate for the full amount of all expected costs, including investigation, and the projected final settlements of claims incurred on or before the balance sheet date. The provision does not take into consideration the time value of money or make an explicit provision for adverse deviation. These estimates of future loss activity are necessarily subject to uncertainty and are selected from a wide range of possible outcomes. All provisions are periodically reviewed and evaluated in the light of emerging claim experience and changing circumstances. The resulting changes in estimates of the ultimate liability are recorded as incurred claims in the accounting period in which they are determined.

### (i) Reinsurance

Net premiums earned and claims incurred are recorded net of amounts ceded to, and recoverable from, reinsurers. Estimates of amounts recoverable from reinsurers on unpaid claims are recorded separately from estimated amounts payable to policyholders. Unearned premiums and deferred policy acquisition costs are also reported before reduction for business ceded to reinsurers and the reinsurers' portion is classified with amounts due from reinsurers.

Amounts recoverable from reinsurers are estimated and recognized in a manner consistent with the Company's method for obtaining the related policy liability associated with the reinsured policy.

### (j) Translation of foreign currencies

Assets and liabilities in foreign currencies are translated into Canadian dollars at year-end exchange rates. Income and expenses are translated at the exchange rates in effect at the date incurred. Realized gains and losses on foreign exchange are recognized in the statement of operations.

The operations of the Company's subsidiaries in the United States are self-sustaining. As a result, the assets and liabilities of these subsidiaries are translated at the year-end rates of exchange. Revenues and expenses are translated at the average rate of exchange for each year. The unrealized gains and losses, which result from translation are deferred and included in shareholders' equity under the caption "currency translation adjustment".

### (k) Income taxes

The Company follows the asset and liability method of accounting for income taxes, whereby future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amount of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Future tax assets and liabilities are measured using enacted or substantially

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

*(Tabular amounts in thousands of dollars)*

enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of enactment or substantive enactment.

### (l) Stock-based compensation plan

The Company has a stock-based compensation plan, which is described in Note 4(b). No compensation expense is recognized for this plan when stock options are issued to employees and directors. The consideration paid by employees and directors on exercise of stock options is credited to share capital.

## 2. Role of the actuary and external auditor

### Role of the actuary

The actuary is appointed by the Board of Directors of the Company. With respect to the preparation of the audited financial statements, the actuary is required to carry out a valuation of the policy liabilities and to provide an opinion to the Company's shareholders regarding their appropriateness at the balance sheet date to meet all policyholder obligations of the Company. The factors and techniques used in the valuation are in accordance with accepted actuarial practice, applicable legislation and associated regulations. The scope of the valuation encompasses the policy liabilities as well as any other matter specified in any direction that may be made by regulators. The policy liabilities consist of a provision for unpaid claims, unearned premiums and deferred policy acquisition costs. In performing the valuation of the policy liabilities for these contingent future events, which are by their very nature inherently variable, the actuary makes assumptions as to future loss ratios, trends, reinsurance recoveries, expenses and other contingencies, taking into consideration the circumstances of the Company and the nature of the insurance policies.

The valuation is based on projections of future claims and claims adjustment expenses. It is certain that actual future claims and claims adjustment expenses will not develop exactly as projected and may, in fact, vary significantly from the projections. Further, the projections make no provision for new classes of claims or claims categories not sufficiently recognized in the claims database.

The actuary relies on data and related information prepared by the Company and makes use of the work of the auditor with respect to the verification of the underlying data used in the valuation for accuracy and completeness.

### Role of the auditor

The external auditors have been appointed by the shareholders. Their responsibility is to conduct an independent and objective audit of the financial statements in accordance with Canadian generally accepted auditing standards and to report thereon to the shareholders. In carrying out their audit, the auditors make use of the work of the actuary and her report on the policy liabilities of the Company. The auditors' report outlines the scope of their audit and their opinion.

## 3. Investments

The carrying amounts and fair values of investments are summarized below:

| | | December 31, 1999 Carrying amount | Fair value |
|---|---|---|---|
| Term deposits: | | $ 79,572 | $ 79,556 |
| Bonds: | | | |
| Canadian | Government | 116,505 | 111,594 |
| | Corporate | 42,970 | 41,950 |
| U.S. | Government | 148,077 | 142,492 |
| | Corporate | 78,131 | 75,878 |
| Other | Government | 8,040 | 7,752 |
| | Corporate | 58,235 | 56,412 |
| Sub-total | | $ 531,530 | $ 515,634 |
| Preferred shares | | 13,193 | 12,088 |
| Common shares | | 70,997 | 63,493 |
| Financed premiums | | 58,414 | 58,414 |
| | | $ 674,134 | $ 649,629 |

The maturity profile of the bonds and term deposits investments at their carrying amount as at December 31, 1999 is as follows:

| | |
|---|---|
| Due in one year or less | $ 127,786 |
| Due after one year through five years | 238,804 |
| Due after five years | 164,940 |
| | $ 531,530 |

| | | December 31, 1998 Carrying amount | Fair value |
|---|---|---|---|
| Term deposits: | | $ 85,821 | $ 85,845 |
| Bonds: | | | |
| Canadian | Government | 104,157 | 105,335 |
| | Corporate | 31,482 | 31,436 |
| U.S. | Government | 196,333 | 196,906 |
| | Corporate | 39,966 | 39,837 |
| Other | Government | 9,299 | 9,347 |
| | Corporate | 35,024 | 35,138 |
| Sub-total | | $ 502,082 | $ 503,844 |
| Preferred shares | | 14,192 | 13,636 |
| Common shares | | 64,657 | 60,689 |
| Financed premiums | | 39,519 | 39,519 |
| | | $ 620,450 | $ 617,688 |

The maturity profile of the bonds and term deposits investments at their carrying amount as at December 31, 1998 is as follows:

| | |
|---|---|
| Due in one year or less | $ 136,781 |
| Due after one year through five years | 193,383 |
| Due after five years | 171,918 |
| | $ 502,082 |

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

*(Tabular amounts in thousands of dollars)*

The carrying amounts are shown by contractual maturity. Actual maturity may differ from contractual maturity because certain borrowers have the right to call or prepay certain obligations with or without call or prepayment penalties.

Fair values are considered to approximate quoted market values based on the latest bid prices. The fair value of financed premiums approximates their carrying amount.

Management has reviewed currently available information regarding those investments whose estimated fair value is less than carrying amount and ascertained that the carrying amounts are expected to be recovered. Debt securities whose carrying amount exceeds market value can be held until maturity when management expects to receive the principal amount.

All of the Company's fixed term investments have fixed interest rates. The coupon rates for the Company's fixed term investments range from 3.125% to 13.25% at December 31, 1999 and from 3.1% to 12.4% at December 31, 1998. As the fair value and carrying amounts are not materially different, the effective rates of interest are not materially different from the coupon rates.

The Company limits its investment concentration in any one investee or related group of investees to less than 5% of the Company's investments.

## 4. Share capital

Authorized: Unlimited number of common shares

Share transactions consist of the following:

| | Shares Issued | Stock Options | Weighted-Average Excercise Price | Amount |
|---|---|---|---|---|
| Balance as at December 31,1997 | 35,829,836 | 495,008 | $ 4.22 | $ 165,147 |
| Issued under share warrant | 122,400 | | | 306 |
| Normal course issuer bid | (140,300) | | | (1,262) |
| Stock options: | | | | |
| Granted in year | | 224,000 | 14.88 | |
| Exercised in year | 91,936 | (91,936) | 3.46 | 318 |
| Forfeited in year | | (55,338) | 4.79 | |
| Balance as at December 31,1998 | 35,903,872 | 571,734 | $ 8.46 | $164,509 |
| Issued under share warrant | 13,763 | | | 34 |
| Normal course issuer bid | (2,003,900) | | | (16,348) |
| Stock options: | | | | |
| Granted in year | | 372,000 | 11.50 | |
| Exercised in year | 96,333 | ( 96,333) | 2.77 | 267 |
| Forfeited in year | | (12,834) | 11.68 | |
| Balance as at December 31,1999 | 34,010,068 | 834,567 | $ 10.42 | $148,462 |

**(a)** On May 8, 1998 the shareholders approved a resolution to subdivide the Company's common stock on a 2-for-1 basis. The number of shares outstanding and earnings per share amounts reflect this subdivision on a retroactive basis.

**(b)** The Company has established a stock option incentive plan for directors, officers and key employees of the Company. The maximum number of common shares that may be issued under the plan is 2,400,000 common shares. The maximum number of common shares available for issuance to any one person under the stock option plan is 5% of the common shares outstanding at the time of the grant. The exercise price is based on the market value of the shares at the time the option is granted. The options vest evenly over a three-year period and expire 5 years from the grant date. At December 31, 1999 and December 31, 1998 options to purchase 834,567 and 571,734 common shares, respectively, were outstanding. The exercise price of the options ranges from $2.50 to $18.775 per share and the options expire in the period from December 5, 2000 to February 25, 2004. During 1999, options to acquire 96,333 shares were exercised at prices from $2.50 to $8.75 per share. At December 31, 1999 and December 31, 1998 the number of options exercisable is 300,400 and 224,401 with a weighted average price of $7.06 and $3.48, respectively.

**(c)** The Company has an employee share purchase plan where qualifying employees can choose each year to have up to 5% of their annual base earnings withheld to purchase the Company's common shares. The Company matches one half of the employee contribution amount, and its contributions vest immediately. All contributions are used by the plan trustee to purchase common shares in the open market. The Company's contribution is expensed as paid and totalled $237,000 in 1999 (1998 - $114,000).

**(d)** The weighted average number of shares outstanding for 1999 and 1998 were 35,595,492 and 35,904,332, respectively. On a fully diluted basis, the weighted average number of shares outstanding for 1999 and 1998 were 36,375,436 and 36,442,543, respectively. The number of shares outstanding and earnings per share amounts have been retroactively restated to reflect the sub-division described in paragraph (a) above.

**(e)** On September 8, 1998 the Company obtained approval from the Toronto Stock Exchange to make a normal course issuer bid for its common shares. For the twelve month period ending September 8, 1999 the Company repurchased 453,800 of its common shares at an average price of $9.29.

**(f)** On September 8, 1999 the Company obtained approval from the Toronto Stock Exchange to make a normal course issuer bid for its common shares. For the twelve month period ending September 8, 2000 the Company may repurchase up to 1,785,000 shares in total representing approximately 5% of the outstanding common shares. As of December 31, 1999, the Company had repurchased 1,690,400 of its common shares at an average price of $7.86.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

*(Tabular amounts in thousands of dollars)*

## 5. Underwriting policy and reinsurance ceded

In the normal course of business, the Company seeks to reduce the loss that may arise from catastrophe or other events that cause unfavourable underwriting results by reinsuring certain levels of risk, in various areas of exposure, with other insurers.

Failure of reinsurers to honour their obligations could result in losses to the Company, consequently, the Company continually evaluates the financial condition of its reinsurers and monitors concentrations of credit risk to minimize its exposure to significant losses from reinsurer insolvency.

The Company follows the policy of underwriting and reinsuring contracts of insurance, which limits the net exposure of the Company to a maximum amount on any one loss of $500,000 (1998 - $500,000) and $1,000,000 (1998 - $1,000,000) in the event of property or liability claims, respectively. In addition, the Company has obtained catastrophe reinsurance which provides coverage in the event of a series of claims arising out of a single occurrence, which limits this exposure in Canada to $1,500,000 per occurrence to a maximum coverage of $25,000,000 (1998 - $15,000,000), and in the United States to U.S.$1,000,000 per occurrence to a maximum coverage of U.S.$7,500,000. The amounts deducted for reinsurance ceded from net premiums earned, claims incurred and commissions and premium taxes for the years December 31, 1999 and 1998 were as follows:

| | 1999 | 1998 |
|---|---|---|
| Net premiums earned | $ 65,002 | $ 105,250 |
| Claims incurred | 52,942 | 86,220 |
| Commissions and premium taxes | 13,212 | 28,551 |

## 6. Income taxes

**(a)** The Company's provision for income taxes, compared to combined federal, provincial and state statutory rates is summarized as follows:

| | 1999 | 1998 |
|---|---|---|
| Provision for taxes at statutory marginal income tax rate | $ 2,717 | $ 20,938 |
| Non-taxable investment income | (1,038) | (1,099) |
| Income earned outside Canada | (3,828) | 1,106 |
| Utilization of prior years' losses and other | 253 | (72) |
| Provision for income taxes | $ (1,896) | $ 20,873 |

**(b)** The components of future income tax balances are as follows:

| | 1999 | 1998 |
|---|---|---|
| Future income tax assets: | | |
| Losses carried forward | $ 15,525 | $ 15,159 |
| Unpaid losses and loss adjustment expenses unearned premiums | 18,754 | 16,120 |
| Other | 5,544 | 2,584 |
| Future income tax assets | 39,823 | 33,863 |
| Future income tax liabilities: | | |
| Deferred policy acquisition costs | (10,179) | (8,066) |
| Unpaid losses and loss adjustment expenses unearned premiums | (1,229) | (1,148) |
| Investments | (6,615) | (4,683) |
| Other | (1,430) | (1,833) |
| Future income tax liabilities | (19,453) | (15,730) |
| Net future income tax assets | $ 20,370 | $ 18,133 |

## 7. Unpaid claims

### (a) Nature of unpaid claims

The establishment of the provision for unpaid claims is based on known facts and interpretation of circumstances and is therefore a complex and dynamic process influenced by a large variety of factors. These factors include the Company's experience with similar cases and historical trends involving claim payment patterns, loss payments, pending levels of unpaid claims, product mix or concentration, claims severity and claim frequency patterns.

Other factors include the continually evolving and changing regulatory and legal environment, actuarial studies, professional experience and expertise of the Company's claim departments' personnel and independent adjusters retained to handle individual claims, the quality of the data used for projection purposes, existing claims management practices including claims handling and settlement practices, the effect of inflationary trends on future claims settlement costs, court decisions, economic conditions and public attitudes. In addition, time can be a critical part of the provision determination, since the longer the span between the incidence of a loss and the payment or settlement of the claims, the more variable the ultimate settlement amount can be. Accordingly, short-tail claims such as property claims, tend to be more reasonably predictable than long-tailed claims, such as general liability and automobile accident benefit claims. Consequently, the process of establishing the provision for unpaid claims relies on the judgement and opinions of a large number of individuals, on historical precedent and trends, on prevailing legal, economic, social

## Notes to Consolidated Financial Statements

*(Tabular amounts in thousands of dollars)*

and regulatory trends and on expectations as to future developments. The process of determining the provision necessarily involves risks that the actual results will deviate, perhaps substantially, from the best estimates made.

Year 2000 is a unique event for which there is no past experience to reasonably predict the ultimate quantum, if any, of claims that may be incurred by the Company under its insurance policies issued. The Company is currently not aware of any claims related to Year 2000 that have been asserted under its policies; however, it recognizes that claims may exist for which it has not been made aware. The Company has clauses in a number of its policies which it believes effectively exclude certain of these claims; however, these clauses have never been judicially tested. Based on the above, the Company has recorded no liability for Year 2000 claims; however, it recognizes that there is uncertainty as to the ultimate liability for Year 2000 claims.

**(b) Provision for unpaid claims**

The Company completes an annual evaluation of the adequacy of unpaid claims at the end of each financial year. This evaluation includes a re-estimation of the liability for unpaid claims relating to each preceding financial year compared to the liability that was originally established. The results of this comparison and the changes in the provision for unpaid claims for the years ended December 31, 1999 and 1998 were as follows:

| | **1999** | 1998 |
|---|---|---|
| Unpaid claims - beginning of year - net | **$ 310,975** | $ 124,944 |
| Net unpaid claims of subsidiaries acquired | **13,393** | 153,820 |
| Provision for claims occurring | | |
| In the current year | **313,791** | 228,213 |
| In prior years | **(6,377)** | (12,869) |
| Claims paid during the year | **(297,805)** | (189,831) |
| Currency translation adjustment | **(9,105)** | 6,698 |
| Unpaid claims - end of year - net | **324,872** | 310,975 |
| Reinsurers' and other insurers share of unpaid claims | **119,817** | 135,270 |
| Unpaid claims - end of year | **$ 444,689** | $ 446,245 |

The provision for unpaid claims and adjustment expenses does not take into account the time value of money. The Company believes that its overall practices have been consistently applied over many years, and that its provisions for unpaid claims have resulted in reasonable approximations of the ultimate costs of claims incurred.

**(c)** The fair value of unpaid claims and adjustment expenses, gross and recoverable from reinsurers, has been omitted because it is not practicable to determine fair value with sufficient reliability.

### 8. Acquisitions

The Company's acquisitions are accounted for by the purchase method with the assets and liabilities of the acquired operations being included in the financial statements at their fair values at the date of acquisition. During 1998 and 1999, the Company completed the following acquisitions:

**(a) U.S. Acquisitions**

On January 13, 1998, the Company completed the acquisition of UCC Corporation ("UCC") and ARK Insurance Agency, Inc. UCC is a holding company that owns all of the shares of Universal Casualty Company ("Universal"). Universal is a non-standard automobile insurance company incorporated and licenced to carry on business in Illinois. All consideration will be paid in cash, part of which was paid at closing, with the remainder to be paid based on the earnings of these companies for the fiscal years 1997 to 2000.

On January 23, 1998, the Company acquired Southern United Holding, Inc. which owns all of the shares of Southern United Fire Insurance Company ("SUFI"), Funding Plus of America, Inc. and Consolidated Insurance Management Corporation. SUFI is a non-standard automobile insurance company incorporated in Alabama which is licenced to carry on business in Alabama, Louisiana, Georgia, Mississippi and Texas. All consideration will be paid in cash, part of which was paid at closing, with the remainder to be paid based on the earnings of these companies for the fiscal years 1997 to 2000.

On March 9, 1998, the Company acquired all of the outstanding shares of American Service Investment Corporation ("American Service"). American Service is a holding company that owns all of the shares of American Service Insurance Company, Inc. ("ASIC") and AOA Payment Plan, Inc. ASIC is a non-standard automobile insurance company incorporated in Illinois and is licenced to carry on business in Illinois, Indiana and Missouri. All consideration was paid in cash on closing.

The estimated net assets acquired at fair values of the aforementioned subsidiaries acquired, were as follows:

| | Estimated at date of acquisition | Re-evaluated at December 31, 1999 |
|---|---|---|
| Tangible assets acquired | $ 290,891 | $ 289,409 |
| Intangible assets acquired | 2,687 | 2,687 |
| Liabilities assumed | (259,039) | (260,208) |
| Net identifiable assets | 34,539 | 31,888 |
| Estimated consideration | 78,756 | 80,947 |
| Goodwill | $ 44,217 | $ 49,059 |

The re-estimation of the fair value of net assets acquired reflects additional contingent consideration with respect to UCC and an adjustment to decrease the fair value of net assets related to UCC, SUFI and ASIC. These adjustments resulted in an increase in goodwill of $4,842,000.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

*(Tabular amounts in thousands of dollars)*

### (b) Walshire

On December 14, 1998, the Company acquired Walshire Assurance Company ("Walshire") whose shares were listed on NASDAQ. Walshire owns all of the shares of Lincoln General Insurance Company, which is an insurer of the transportation industry and is licenced in 39 states. The Company paid Walshire shareholders U.S. $8.25 per share in cash for all of the 4,491,138 outstanding common shares and U.S. $50 per share in cash for all of the 128,100 outstanding preferred shares for a total purchase price of approximately U.S. $43.8 million. All consideration was paid in cash on closing.

The estimated net assets acquired at fair values of the aforementioned subsidiary acquired, were as follows:

| | |
|---|---|
| Tangible assets acquired | $ 191,057 |
| Intangible assets acquired | 2,780 |
| Liabilities assumed | (139,989) |
| Net identifiable assets | 53,848 |
| Consideration | 68,481 |
| Goodwill | $ 14,633 |

### (c) Hamilton

On January 8, 1999 the Company acquired all of the outstanding shares of Hamilton Investments, Inc. ("Hamilton"). Hamilton owns all of the shares of U.S. Security Insurance Company ("USSI"), Appco Finance Corporation ("Appco"), Insurance Management Services, Inc. ("IMS"), Corporate Claims Services, Inc. ("CCS") and Auto Body Tech, Inc. ("ABT"). USSI is a non-standard automobile insurance company, incorporated and licenced to carry on business in Florida. Appco is one of the largest independent premium finance companies in Florida, providing premium financing to a number of insurance companies. IMS, a managing general agent, CCS, a claims service provider, and ABT, an auto body repair facility, provide services for a number of insurance companies. All consideration will be paid in cash, part of which was paid at closing, with the remainder to be paid based on the earnings of these companies for the fiscal years 1999 to 2003.

The estimated net assets acquired at fair values of the aforementioned subsidiary acquired, were as follows:

| | |
|---|---|
| Tangible assets acquired | $ 77,905 |
| Intangible assets acquired | 497 |
| Liabilities assumed | (59,220) |
| Net identifiable assets | 19,182 |
| Consideration: | |
| Paid in year | 28,652 |
| Present value of guaranteed future payments | 9,212 |
| Goodwill | $ 18,682 |

## 9. Segmented information

The Company provides property and casualty insurance and other insurance related services in three reportable segments, Canada, the United States and corporate and other insurance related services. At the present time, other insurance related services are not significant. Results for the Company's operating segments are based on the Company's internal financial reporting systems and are consistent with those followed in the preparation of the consolidated financial statements. The segmented information for December 31, 1999 is summarized below:

| | Canada | United States | Corporate and Other | Total |
|---|---|---|---|---|
| Gross premiums written | $ 234,317 | $ 274,278 | $ - | $ 508,595 |
| Revenue | 224,862 | 258,688 | 755 | 484,305 |
| Interest expense | - | 9,521 | 1,036 | 10,557 |
| Goodwill amortization | 678 | 4,905 | - | 5,583 |
| Net income | 3,867 | 9,472 | 259 | 13,598 |
| Total assets | 457,353 | 587,633 | 26,724 | 1,071,710 |
| Additions to goodwill | 389 | 23,677 | - | 24,066 |

The segmented information for December 31, 1998 is summarized below:

| | Canada | United States | Corporate and Other | Total |
|---|---|---|---|---|
| Gross premiums written | $ 208,877 | $ 200,323 | $ - | $ 409,200 |
| Revenue | 214,047 | 135,690 | 2,513 | 352,250 |
| Interest expense | - | 856 | 1,178 | 2,034 |
| Goodwill amortization | 586 | 2,615 | - | 3,201 |
| Net income | 20,308 | 8,656 | 2,047 | 31,011 |
| Total assets | 360,895 | 618,369 | 35,339 | 1,014,603 |
| Additions to goodwill | 3,026 | 59,838 | - | 62,864 |

# Notes to Consolidated Financial Statements

*(Tabular amounts in thousands of dollars)*

The Company has a concentration of business in automobile and property insurance and geographically in the state of Illinois, the province of Ontario and the states of the southern United States as summarized below:

| | Gross Premiums Written | |
|---|---|---|
| | 1999 | 1998 |
| Business Line | % | % |
| Automobile | 61% | 70% |
| Commercial Automobile | 17% | 8% |
| Property & Liability | 12% | 10% |
| Motorcycle | 7% | 8% |
| Other | 3% | 4% |
| | 100% | 100% |
| Geographical Area | | |
| Illinois | 25% | 29% |
| Ontario | 24% | 24% |
| Southern U.S. | 21% | 20% |
| Alberta | 10% | 13% |
| Quebec | 9% | 12% |
| Northeast U.S. | 6% | - |
| Other | 5% | 2% |
| | 100% | 100% |

## 10. Bank indebtedness

**(a)** The Company has entered into a $25 million unsecured 364 day credit facility with a Canadian bank. Under this facility, the Company has the option to borrow at the floating rate equivalent to the bank's prime rate, or for a fixed term at a fixed rate of the Bankers' Acceptance or LIBOR plus a spread based on the Company's credit rating or upon the ratio of funded debt to total capitalization, whichever is higher. During 1998, the credit facility was temporarily amended to $75 million while the Company completed a long-term debt financing arrangement as described in note (c) below. At December 31, 1999, the Company had drawn U.S. $5 million (1998 – U.S. $17 million) on this credit facility. The facility expires on February 22, 2000 and has been extended until April 22, 2000.

**(b)** The Company has entered into a U.S. $25 million unsecured 364 day credit facility with another Canadian bank. Under this facility, the Company has the option to borrow at a floating rate equivalent to the bank's prime rate, or for a fixed term at a fixed rate of Bankers' Acceptance or LIBOR plus a spread based on the Company's credit rating or upon the ratio of funded debt to total capitalization, whichever is higher. During 1998, the credit facility was temporarily amended to U.S. $50 million while the Company completed a long-term debt financing arrangement as described in note (c) below. At December 31, 1999, the Company had not drawn (1998 - U.S. $45.5 million) on this credit facility. The facility expires on February 22, 2000 and has been extended to April 23, 2000.

**(c)** On February 23, 1999, the Company entered into a U.S. $100 million unsecured credit facility with a syndicate of two Canadian and two U.S. banks. Under this facility the Company has the option to borrow at a floating rate equivalent to the banks prime rate or for a fixed term at a fixed rate of LIBOR plus a spread based on the Company's credit rating or upon the ratio of funded debt to total capitalization, whichever is higher. The facility is for a fixed term of five years and one day and was fully drawn on March 5, 1999 for general corporate purposes. The Company entered interest rate swap transactions whereby the Company fixed its rate on this U.S. $100 million debt at 5.91% plus a spread based on the Company's credit rating or upon the ratio of funded debt to total capitalization, whichever is higher, for the period of the facility.

## 11. Contingent liabilities

### (a) Legal Proceedings

In connection with its operations, the Company and its subsidiaries are, from time to time, named as defendants in actions for damages and costs allegedly sustained by the plaintiffs. While it is not possible to estimate the outcome of the various proceedings at this time, such actions have generally been resolved with minimal damages or expense in excess of amounts provided and the Company does not believe that it will incur any significant additional loss or expense in connection with such actions.

### (b) Statutory Requirements

The Company's insurance subsidiaries are subject to certain requirements and restrictions under their respective statutory insurance legislations including minimum asset requirements and dividend restrictions.

### (c) Uncertainty due to the Year 2000 Issue

The Year 2000 issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. Although the change in date has occurred, it is not possible to conclude that all aspects of the Year 2000 issue that may affect the entity, including those related to customers, suppliers, or other third parties, have been fully resolved.

## 12. Fair value disclosure

The fair value of financial assets and liabilities, other than investments (note 3) and unpaid claims (note 7) approximate their carrying amounts.

# Supplemental Financial Information

Eight Year Financial Highlights
($ in thousands of dollars, except per share amounts)

| | 1999 | 1998 | 1997 | 1996 | 1995 | 1994 | 1993 | 1992 |
|---|---|---|---|---|---|---|---|---|
| Gross premiums written | **$508,595** | $409,200 | $210,795 | $140,610 | $60,049 | $55,619 | $30,002 | $14,177 |
| Net premiums earned | **445,557** | 314,651 | 174,462 | 107,679 | 46,063 | 42,414 | 14,386 | 12,631 |
| Underwriting profit (loss) | **(11,458)** | 19,075 | 7,319 | 4,707 | 1,560 | 2,591 | 766 | 1,913 |
| Investment income | **38,748** | 37,599 | 21,836 | 11,049 | 4,913 | 3,336 | 2,107 | 2,326 |
| Net income | **13,598** | 31,011 | 22,151 | 11,162 | 3,767 | 3,295 | 1,583 | 2,340 |
| Shareholders' equity | **242,042** | 250,065 | 213,248 | 86,634 | 36,677 | 16,657 | 13,362 | 12,379 |
| Total assets | **1,071,710** | 1,012,776 | 511,229 | 248,233 | 95,601 | 64,605 | 46,825 | 33,975 |
| Retained earnings | **92,710** | 79,112 | 48,101 | 25,950 | 14,788 | 11,021 | 7,726 | 6,743 |
| Claims ratio (%) | | | | | | | | |
| Company | **68.4%** | 61.6% | 65.3% | 64.9% | 66.5% | 64.0% | 57.7% | 55.3% |
| Industry - Canada | **74.0%** | 74.3% | 71.2% | 72.5% | 73.1% | 75.0% | 76.2% | 77.3% |
| Expense ratio (%) | | | | | | | | |
| Company | **34.2%** | 32.3% | 30.5% | 30.7% | 30.1% | 29.9% | 36.9% | 29.5% |
| Industry - Canada | **32.8%** | 33.3% | 31.8% | 31.4% | 31.5% | 32.0% | 33.5% | 33.6% |
| Combined ratio (%) | | | | | | | | |
| Company | **102.6%** | 93.9% | 95.8% | 95.6% | 96.6% | 93.9% | 94.6% | 84.8% |
| Industry - Canada | **106.8%** | 107.6% | 103.0% | 103.9% | 104.6% | 107.0% | 109.7% | 110.9% |
| Return on equity (%) | | | | | | | | |
| Company | **5.5%** | 13.4% | 16.5% | 21.4% | 19.8% | 21.9% | 12.3% | 22.1% |
| Industry - Canada | **5.4%** | 7.1% | 12.9% | 13.1% | 11.5% | 6.7% | 9.4% | 8.5% |
| Investment yield (%) | **5.6%** | 8.0% | 8.2% | 8.3% | 8.1% | 8.5% | 7.7% | 9.8% |
| Shareholders' equity per share | | | | | | | | |
| At year end | **$7.12** | $6.96 | $5.95 | $3.26 | $1.90 | $1.39 | $1.11 | $1.03 |
| Annual increase | **2.3%** | 17.0% | 82.5% | 71.6% | 36.7% | 25.2% | 7.8% | 2.0% |
| Earnings per share | | | | | | | | |
| Basic | **$0.38** | $0.86 | $0.74 | $0.52 | $0.31 | $0.27 | $0.13 | $0.22 |
| Fully diluted | **$0.38** | $0.86 | $0.73 | $0.49 | $0.30 | $0.27 | $0.13 | $0.22 |
| Weighed average number of shares outstanding | | | | | | | | |
| Basic* | **35,595** | 35,904 | 29,956 | 21,448 | 12,260 | 12,000 | 12,000 | 10,416 |
| Fully diluted* | **36,375** | 36,443 | 30,496 | 22,400 | 12,260 | 12,000 | 12,000 | 10,416 |

All financial information relating to the insurance industry for the years 1992 to 1998 was obtained from IAO Consulting Services Inc., The Quarterly Report, 4th Quarter, 1998.

Information for the 1999 year was obtained from the preliminary estimates published by the Insurance Bureau of Canada, Perspective, March 2000.

* In thousands, after giving retroactive effect to the 3 for 1 share subdivision on November 10, 1995 and the two for one share subdivisions on October 10, 1996 and May 8, 1998.

# Supplemental Financial Information

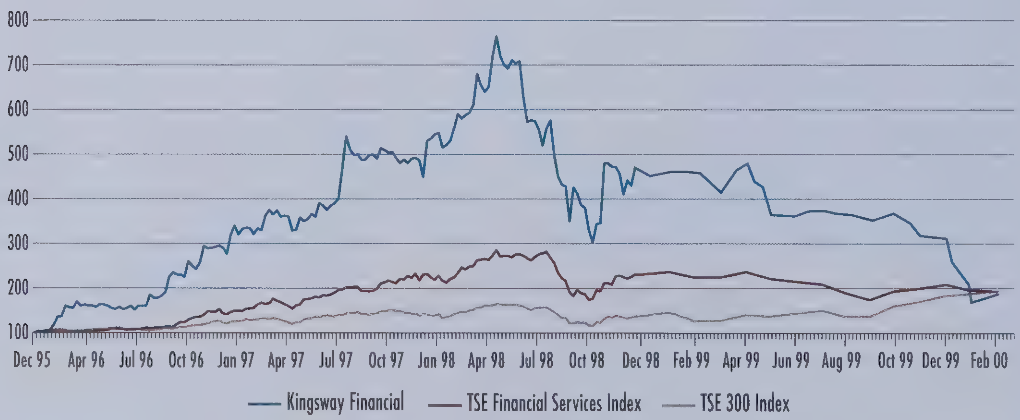
## Quarterly Results

| ($ in thousands except per share amounts) | 1998 Q1 | Q2 | Q3 | Q4 | 1999 Q1 | Q2 | Q3 | Q4 |
|---|---|---|---|---|---|---|---|---|
| Gross premiums written | $95,901 | $123,801 | $100,760 | $88,738 | $124,548 | $138,895 | $126,888 | $118,264 |
| Net premiums earned | 61,940 | 81,499 | 92,545 | 78,667 | 104,420 | 110,998 | 120,105 | 110,034 |
| Net income | 7,456 | 6,432 | 9,328 | 7,795 | 6,497 | 9,695 | 10,027 | (12,621) |
| Earnings per share | | | | | | | | |
| Basic | $ 0.21 | $ 0.18 | $ 0.26 | $ 0.21 | $ 0.18 | $ 0.27 | $ 0.28 | $ (0.35) |
| Fully diluted | 0.21 | 0.18 | 0.26 | 0.21 | 0.18 | 0.27 | 0.28 | (0.35) |
| Market price per share | | | | | | | | |
| High | $ 17.50 | $ 19.25 | $ 15.50 | $ 12.85 | $ 13.10 | $ 12.00 | $ 10.30 | $ 9.25 |
| Low | 12.00 | 13.50 | 8.25 | 7.25 | 9.60 | 7.25 | 8.20 | 7.00 |
| Close | 15.20 | 13.75 | 8.65 | 12.00 | 10.30 | 8.90 | 8.75 | 7.75 |

Per share amounts are after giving effect to the 2 for 1 subdivision of shares on May 8, 1998

## Relative Market Performance

for the Period December 29, 1995 to February 29, 2000



# Canadian & Reinsurance Operations Corporate Directory

| Company | Directors | | Officers | |
|---|---|---|---|---|
| Kingsway General Insurance Company<br>5310 Explorer Drive, Suite 200<br>Mississauga, Ontario Canada L4W 5H8<br>Tel. (905) 629-7888 Fax (905) 629-5008 | David H. Atkins<br>William G. Star<br>James R. Zuhlke | *Director*<br>*Director*<br>*Director* | William G. Star<br>G. Steven Smith<br>W. Shaun Jackson<br>Richard F. Davis<br>Ralph Golberg<br>Donald S. Hyslop<br>Robert Wong<br>Eileen Lascelles | *President & C.E.O.*<br>*Executive Vice President & C.O.O.*<br>*Vice President*<br>*Assistant Vice President*<br>*Assistant Vice President*<br>*Assistant Vice President & C.F.O.*<br>*Secretary/Treasurer*<br>*Assistant-Secretary* |
| York Fire & Casualty Insurance Company<br>5310 Explorer Drive, Suite 201<br>Mississauga, Ontario Canada L4W 5H9<br>Tel. (905) 629-8444 Fax (905) 629-5008 | Brian Freund<br>W. Shaun Jackson<br>G. Steven Smith<br>William G. Star | *Director*<br>*Director*<br>*Director*<br>*Director* | William G. Star<br>Eileen Lascelles<br>W. Shaun Jackson<br>Lorraine Skrzydlo | *President & C.E.O.*<br>*Executive Vice President & General Manager*<br>*Vice President & C.F.O.*<br>*Secretary/Treasurer* |
| Jevco Insurance Company<br>2021 Union Avenue, Suite 1150<br>Montreal, Quebec Canada H3A 2S9<br>Tel. (514) 284-9350 Fax (514) 289-9257 | David H. Atkins<br>Thomas A. Di Giacomo<br>W. Shaun Jackson<br>Jean Lariviere<br>Jacques Muir<br>J. Brian Reeve<br>William G. Star | *Director*<br>*Director*<br>*Director*<br>*Director*<br>*Director*<br>*Director*<br>*Director* | William G. Star<br>W. Shaun Jackson<br>Jacques Muir<br>Jean-Guy LeClerc | *President & C.E.O.*<br>*Executive Vice President & C.F.O.*<br>*Vice President & General Manager*<br>*Secretary/Treasurer* |
| Kingsway Reinsurance Corporation<br>Whitepark House, P.O.Box 1174<br>Bridgetown, Barbados West Indies<br>Tel. (246) 436-9929 Fax (246) 436-9932 | Kirk Cyrus<br>W. Shaun Jackson<br>David King<br>William G. Star<br>Kevin Walton | *Director*<br>*Director*<br>*Director*<br>*Director*<br>*Director* | Kirk Cyrus<br>Corporate Managers (Barbados) Ltd. | *President*<br>*Secretary* |
| Kingsway Reinsurance (Bermuda) Ltd.<br>Victoria Hall, 11 Victoria Street<br>P.O. HM 1826 Hamilton,<br>HM HX, Bermuda<br>Tel. (441) 298-6640 Fax (441) 292-1563 | W. Shaun Jackson<br>Derek Patience<br>William G. Star<br>Nisala Weerasooriya | *Director & Deputy Chairman*<br>*Alternate Director*<br>*Director & Chairman*<br>*Director* | Andre J. Dill<br>Catharine Lymbery | *Secretary*<br>*Assistant Secretary* |

## U.S. Operations Corporate Directory

| | | | | |
|---|---|---|---|---|
| Kingsway America Inc. | W. Shaun Jackson | *Director* | James R. Zuhlke | *President & C.E.O.* |
| 1515 Woodfield Road, Suite 820 | William G. Star | *Director* | John B. Proctor | *Vice President & C.F.O.* |
| Schaumburg, Illinois USA 60173 | | *& Chairman* | W. Shaun Jackson | *Vice President & Secretary* |
| Tel. (847) 619-7610 Fax (847) 619-5275 | James R. Zuhlke | *Director* | G. Steven Smith | *Vice President* |
| | | | Shelly Gobin | *Assistant-Secretary* |
| | | | Susan King | *Assistant-Secretary* |
| Universal Casualty Company | W. Shaun Jackson | *Director* | Marshall Romanz | *Vice President & C.F.O.* |
| 7280 North Caldwell | Marc Romanz | *Director* | Marc Romanz | *Executive Vice President & Secretary* |
| Niles, Illinois USA 60714 | Marshall Romanz | *Director* | Gary Baker | *Vice President, Underwriting* |
| Tel. (847) 647-5430 Fax (847) 647-2571 | William G. Star | *Director* | George Fuchs | *Vice President, Claims* |
| | James R. Zuhlke | *Director* | Matthew J. Dutkanych | *Treasurer* |
| Southern United Fire | W. Shaun Jackson | *Director* | Craig A. Lochner | *President* |
| Insurance Company | Charles D. Jordan | *Director* | Al Trovinger | *Vice President & Secretary* |
| One Southern Way | Craig A. Lochner | *Director* | Suzanne Trovinger | *Vice President* |
| Mobile, Alabama USA 36619 | William G. Star | *Director* | Leslie DiMaggio | *Vice President* |
| Tel. (334) 661-8008 Fax (334) 662-6562 | James R. Zuhlke | *Director* | A.J. Bowab | *Treasurer* |
| | | | James R. Zuhlke | *Assistant Secretary* |
| American Service Insurance | John T. Clark | *Director* | B. Howard Zirn | *Chairman* |
| Company, Inc. | W. Shaun Jackson | *Director* | John T. Clark | *President & C.E.O.* |
| 9801 West Higgins Road, 8th Floor | William G. Star | *Director* | Louis D. Skender | *Treasurer* |
| Rosemont, Illinois USA 60018 | B. Howard Zirn | *Director* | Peggy A. Klein | *Secretary* |
| Tel. (847) 318-5800 Fax (847) 318-0200 | James R. Zuhlke | *Director* | | |
| Walshire Assurance Company | Brian Freund | *Director* | William G. Star | *President, C.E.O. & Chairman* |
| *Lincoln General Insurance Company* | W. Shaun Jackson | *Director* | Gary J. Orndorff | *General Manager, Vice President, Treasurer & Secretary* |
| *Yorktowne Insurance Company* | Arthur Miller | *Director* | | |
| 3350 Whiteford Road, P.O. Box 3849 | Gary J. Orndorff | *Director* | | |
| York, Pennsylvania USA 17402-0138 | J. Brian Reeve | *Director* | | |
| Tel. (717) 757-0000 Fax (717) 717-0165 | William G. Star | *Director* | | |
| | James R. Zuhlke | *Director* | | |
| Hamilton Investments, Inc. | Roberto Espin, Jr. | *Director* | Roberto Espin, Jr. | *President & Chairman* |
| *U.S. Security Insurance Company* | W. Shaun Jackson | *Director* | Juan A. Lopez | *Treasurer & Secretary* |
| *Appco Finance Corporation* | Juan A. Lopez | *Director* | Luis Alvarez | *Vice President* |
| 3915 Biscayne Boulevard, 4th Floor | William G. Star | *Director* | Henry Cuadra | *Vice President* |
| Miami, Florida USA 35137 | James R. Zuhlke | *Director* | Lucia Mohamad | *Vice President, HR* |
| Tel. (305) 576-1115 Fax (305) 576-4595 | | | | |
| Avalon Risk Management, Inc. | Gary C. Bhojwani | *Director* | Gary C. Bhojwani | *President* |
| 3315 East Algonquin Road, Suite 340 | W. Shaun Jackson | *Director* | W. Shaun Jackson | *Treasurer* |
| Rolling Meadows, Illinois USA 60008 | William G. Star | *Director* | Denise Lee Hruby | *Secretary* |
| Tel. (888) 678-4020 Fax (847) 670-9260 | | | | |

## Directors and Officers

### Directors

William G. Star
Chairman

David H. Atkins*
Senior Advisor,
Lang Michener

John L. Beamish
President, J. Llewellyn
Beamish & Associates Inc.

Thomas A. Di Giacomo*
President, Tadico Limited

Bernard Gluckstein
Principal, Gluckstein and Associates

Murray A. Thompson*
Barrister & Solicitor,
Blaney, McMurtry LLP

F. Michael Walsh
Private Investor

James R. Zuhlke
President and Chief Executive Officer
Kingsway America Inc.

* Members of the Audit Committee

### Officers

William G. Star
President and Chief Executive Officer

W. Shaun Jackson
Executive Vice President and
Chief Financial Officer

Jim Thorndycraft
Vice President

G. Steven Smith
Vice President

Eileen Lascelles
Assistant-Secretary

Shelly Gobin
Treasurer

Robert Wong
Assistant-Treasurer

Michael S. Slan
Secretary
Barrister & Solicitor
Fogler, Rubinoff LLP

## Shareholder Information

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Fax (905) 629-5008

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Toronto, Ontario M5J 2N1

Stock Exchange Listing
The Toronto Stock Exchange
Trading Symbol 'KFS'

General Counsel
Fogler, Rubinoff LLP

Auditors
KPMG LLP, Toronto

Appointed Actuary
Claudette Cantin, F.C.I.A.
KPMG LLP, Toronto

Investor Relations
W. Shaun Jackson
Executive Vice President and
Chief Financial Officer

Internet Address
Website: www.kingsway-financial.com
E-mail: info@kingsway-financial.com

Common Shares Outstanding
34,010,068 as at December 31, 1999

Annual Meeting
The annual meeting of shareholders
will be held on Thursday, May 4, 2000
at 4:30 p.m. at the Toronto Board of Trade
First Canadian Place
Toronto, Ontario

Integrated Design: Cameron Douglas Plus Associates Inc.

# Kingsway Financial Services Inc.

Kingsway General Insurance Company

York Fire and Casualty Insurance Company

Jevco Insurance Company

Universal Casualty Company

Southern United Fire Insurance Company

American Service Insurance Company

Walshire Assurance Company

Hamilton Investments

Avalon Risk Management